Supreme Court, U.S.
FILED

081094 DEC 22 2008

14 (1)

OFFICE OF THE CLERK

In The

Supreme Court of the United States

SUMMIT NATIONAL, INC.,

Petitioner,

v.

DAIMLERCHRYSLER SERVICES NORTH AMERICA, LLC f/k/a MERCEDES-BENZ CREDIT CORPORATION,

Respondent.

On Petition For A Writ Of Certiorari To The United States Sixth Circuit Court Of Appeals

PETITION FOR A WRIT OF CERTIORARI

JONATHAN B. FRANK
JACKIER GOULD, P.C.
121 West Long Lake Road,
Suite 200
Bloomfield Hills, Michigan 48304
(248) 642-0500
Counsel for Petitioner

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

QUESTION PRESENTED

Petitioner Summit National, Inc. ("Summit"), a software company, terminated the license for lease accounting software granted to DaimlerChrysler Financial Services North America ("Daimler") after learning that Daimler had breached, and refused to correct, many facets of the license agreement. After Daimler sued, the District Court for the Eastern District of Michigan upheld Summit's termination and issued a permanent injunction against Daimler's continued use of the software. The Sixth Circuit Court of Appeals affirmed the injunction.

In the meantime, there was a period of 18 months post-termination during which Daimler wrongfully used Summit's software without a license to run a multi-billion dollar vehicle lease portfolio. Summit then sought damages based on the value to Daimler of wrongfully using the software during this period. The District Court rejected Summit's claim before trial and Summit appealed. The Sixth Circuit also rejected Summit's claim, although for completely different reasons; indeed, the Sixth Circuit did not rely on any of the arguments in any of the District Court's many opinions or any of the many briefs filed by the parties. Instead, the Sixth Circuit relied on its erroneous legal conclusion that cessation of marketing activity barred both Summit's trade secret and unjust enrichment claims and its mistaken belief that Summit had stopped marketing the software.

QUESTION PRESENTED - Continued

The question presented is whether the Sixth Circuit failed to apply the Michigan Uniform Trade Secrets Act, fundamental principles of intellectual property and unjust enrichment jurisprudence, as well as principles of the Due Process Clause of the Fourteenth Amendment, when it ruled – before trial and without the benefit of any briefs or argument from the parties – that Summit lost its trade secret rights and was thus prevented from seeking damages for Daimler's wrongful, unlicensed use of Summit's software.

PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT

Only the parties named in the caption are parties to the proceeding. Pursuant to this Court's Rule 29.6, undersigned counsel states that Summit National, Inc. has no parent corporation and no publicly held company owns 10% or more of its stock.

TABLE OF CONTENTS

TABLE OF CONTENTS – Continued

TABLE OF AUTHORITIES

Page

CASES

TABLE OF AUTHORITIES – Continued

Page

STATUTES

TABLE OF AUTHORITIES – Continued

Page

OTHER AUTHORITIES

PETITION FOR A WRIT OF CERTIORARI

Petitioner Summit National, Inc. respectfully submits this petition for a writ of certiorari to review the judgment of the Sixth Circuit Court of Appeals.

OPINIONS BELOW

The first opinion of the United States District Court is not electronically reported. Pet. App. 82a. The first opinion of the Sixth Circuit Court of Appeals, 144 Fed. Appx. 542 (6th Cir. 2005), is electronically reported at 2005 WL 1994321. Pet. App. 64a. The subsequent opinions of the United States District Court are electronically reported at 2006 WL 1420812, 2006 WL 2228981 and 2007 WL 496689. Pet. App. 23a, 56a and 49a. The second opinion of the Sixth Circuit Court of Appeals, 289 Fed. Appx. 916 (6th Cir. 2008), is electronically reported at 2008 WL 3889747. Pet. App. 1a.

JURISDICTION

The Sixth Circuit Court of Appeals entered judgment on September 22, 2008. The jurisdiction of this Court is invoked under 29 U.S.C. §1254.

CONSTITUTIONAL PROVISION AND STATUTES INVOLVED

The Fourteenth Amendment to the U.S. Constitution provides, in relevant part:

> No State shall . . . deprive any person of life, liberty or property, without due process of law . . .

U.S. Const. amend. XIV, §1.

18 U.S.C. §1839(3) provides:

> the term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if – **(A)** the owner thereof has taken reasonable measures to keep such information secret; and **(B)** the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public;

MCL 445.1902(d) provides:

> (d) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following: (i) Derives

independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use. (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

STATEMENT

Plaintiff is DaimlerChrysler Services North America, LLC ("Daimler"), which was the finance arm of DaimlerChrylser Corporation. Daimler provided financing for dealer inventories and retail consumers, and served as headquarters for operations in the U.S., Canada, Mexico, Puerto Rico, Argentina, Brazil and Venezuela. Daimler had over 5,800 employees who managed a portfolio of more than $95 billion with nearly five million contracts. Daimler was made up of Chrysler Financial, Mercedes Benz Financial, DaimlerChrysler Truck Financial, DaimlerChrysler Insurance Company, DaimlerChrysler Financial Services – Canada, and DaimlerChrysler Financial Services – Mexico. Daimler called itself "one of the world's largest captive financial services companies."

Defendant is Summit National, Inc. ("Summit"), a Chicago-based software company. Summit developed, marketed, sold and serviced sophisticated lease accounting software systems for major and middle-level banks and finance corporations worldwide.

Summit's predecessor Stockholder Systems, Inc. ("SSI") developed and licensed software called ALAS, also known as Automated Lease Accounting System. In 1983, Daimler's predecessor Mercedes-Benz Credit Corporation ("MBCC") and SSI entered into a Software System Agreement to license ALAS 6.0 (the "License Agreement"). By 2002 and 2003, Daimler was earning total revenues of over $34 billion, for an annual average of roughly $17 billion. Of this, the Mercedes Benz leases and commercial truck leases (collectively, the Mercedes Benz Credit portfolio) run on the ALAS system accounted for about $2.4 billion annually. According to Daimler's own expert C.P.A. Tom Frazee, the annual profit on this ALAS-based revenue was over $200 million.

Sections 3.1 and 7 of the License Agreement describe ALAS as a trade secret and restrict third-party access to the software. However, Daimler breached its obligations under the License Agreement, allowing third parties to have access to the software. Summit also learned through discovery that Daimler had approximately 1,600 unlicensed ALAS users in at least eight unlicensed data input centers throughout North America. The consequences of Daimler's disregard of its contractual obligations are spelled out in section 1 of the License Agreement. Summit "shall have the right to terminate this Agreement in the event of any breach by M-B Credit provided such breach remains uncorrected after 30 days following receipt of notice of said breach from

SSI." On April 10, 2002, such a notice was sent to Daimler.

Because Daimler needed to keep using ALAS, even in the face of this notice, Daimler filed this case on May 9, 2002, seeking a declaration that it was not in default. Federal jurisdiction was premised on 28 U.S.C. §1332 because Daimler was a Michigan limited liability company and Summit was an Illinois corporation. As Paragraph 26 of Daimler's Complaint states, if Daimler had to stop using ALAS, that would "halt[ ] operation of the [software] system, costing Daimler millions of dollars." Indeed, ALAS is at the heart of Daimler's Mercedes Benz Credit operations. During discovery, Daimler's own experts Jeffrey Brush and Professor Bernard Galler established the scope of Daimler's use of ALAS, identifying eight ALAS programs still in use. As SSI's former president D.R. Grimes explained, these eight ALAS programs were the "core" functions of ALAS, adding that ALAS had "very sophisticated calculation capabilities related to leasing . . . " and that even in 2005, there were 20 to 25-year-old COBOL programs still in use in the banking business. Barry Sobel, Daimler's senior manager of software integration, testified that if Daimler had to stop using ALAS, "it would shut down the Mercedes-Benz car and commercial truck operation." Pauline Kelly, Daimler's head of information technology, described ALAS as the "core system" and "engine" for the MBC business.

Summit, of course, filed a counterclaim, pursuing claims for breach of contract, trade secret misappropriation and copyright infringement.

After the parties filed cross-motions for summary judgment, the District Court ruled that Summit properly terminated the License Agreement and granted an injunction against Daimler's use of ALAS. Pet. App. 82a. Daimler appealed and the Sixth Circuit Court of Appeals affirmed. Pet. App. 64a. In the meantime, Daimler used ALAS for 18 months without a license from May, 2002 through November, 2003, the deadline in the District Court's injunction – Daimler used ALAS right up to the deadline despite the District Court's warning that Daimler should "discontinue its use of ALAS before [the deadline] to minimize the accrual of damages." Pet. App. 110a. Simply put, Daimler decided to take the expedient course by continuing to use software for which it did not have a license.[1]

The primary issue then became Daimler's financial responsibility for using ALAS for 18 months without a license. As the District Court framed the issue in a pre-trial order, "Daimler has admitted that ALAS was so critical to its business that without ALAS (or some similar substitute), it would have had

---

[1] Daimler also made good on its pre-litigation threat to "crush" Summit "like a bug" when Daimler forced Summit into bankruptcy in April, 2005. Daimler pursued a previously dormant creditor of Summit's, convinced that creditor to foreclose on Summit's assets (including this case), and then was prepared to pay $1 million to the creditor to buy Summit's assets (including this case). With Summit's assets in hand, Daimler would then have dismissed this case and avoided liability for its wrongful use of ALAS. Summit's bankruptcy filing prevented Daimler's scheme from succeeding. (R.E. 305, at 3, R.E. 340, Ex. A). Summit emerged from bankruptcy in September, 2006.

to shut down. Summit points out the obvious fact that ALAS was worth more to Summit [sic – should read Daimler] than it was worth on the open market. Thus, Summit argues, actual damages should not be measured by the market value of ALAS, but should rather be measured by the value of ALAS to Daimler."

It is the next sequence of events that propelled this case into chaos. On March 28, 2006, two days from trial, Daimler filed a motion (with an unclear procedural basis) attacking Summit's trade secret claim. The next day, March 29, at a pretrial conference hearing, the District Court dropped a bombshell, ruling that Summit's trade secret claim would be dismissed. When Summit objected to the substance and procedure of this ruling, the District Court permitted additional briefing.

On May 22, the District Court entered an order dismissing Summit's trade secret claims, erroneously asserting that "both the legal posture and the facts of the case have changed in important ways." The District Court made a mistake at the very beginning of its opinion, noting that "[t]his case began just over four years ago, when Defendant Summit National, Inc. ("SNI") discovered that it had an ownership interest in Automated Leasing Account System ("ALAS") software." Pet. App. 23a. However, throughout the briefs, and indeed in the District Court's and Sixth Circuit's earlier opinions, it was clear that Summit had purchased all rights to ALAS in 1998. Summit did not discover that it owned ALAS in 2002. What Summit discovered in 2002 was that Daimler was violating the terms of its license to use ALAS.

The District Court then arrived at the wholly unsupported conclusion that "Summit now concedes that despite its repeated assertions earlier in this litigation, it has never possessed ALAS source code that it now claims as its own protected trade secret." Pet. App. 40a. Whether Summit had "possession" of ALAS therefore became the cornerstone of the District Court's ruling. However, the District Court ignored all of the following: (1) Summit's rights to ALAS had been resolved on appeal; (2) Summit had produced ALAS source code under seal; (3) Daimler had produced ALAS source code under seal which contained identical programs to the ALAS source code produced by Summit; (4) Summit's programming staff supported existing ALAS customers using the source code in Summit's possession; (5) the District Court had denied Daimler's earlier motion for summary judgment (noting that "there is no authority to support Daimler's contention that Summit's alleged inability to produce the ALAS source code warrants summary judgment in favor of Daimler on this claim"); (6) the case was set for trial on damages; (7) there was no summary judgment motion pending (nor could there have been, given the procedural posture of the case); (8) the cases it cited did not support the proposition that "possession" is a critical element of a trade secret claim; and (9) the facts before the District Court in 2003 and 2004 were the same as the facts in 2006. In short, there was nothing new in 2006. Summit had produced copies of ALAS source code that contained all versions of ALAS, Daimler had produced its version of ALAS, Daimler admitted

that it used ALAS for 18 months without a license, and neither the District Court nor a jury had ever performed a comparison between the two that could support the District Court's concern about "possession."

Without a trade secret claim, Summit was left with a claim for damages arising out of Daimler's unlicensed use of ALAS based on Daimler's unjust enrichment, measured by the value of ALAS to Daimler (the District Court explained, somewhat imprecisely, that Summit would be entitled to "equitable relief under a quantum meruit theory based on Daimler's continued use of ALAS after Summit terminated the Software Agreement.")

Summit then briefed its right to collect damages under the Court's new quantum meruit theory. On August 3, 2006, the Court issued an "Order Regarding Summit's Damages Proofs." Pet. App. 56a. After summarizing general quantum meruit principles, the Court held that "Daimler's post-termination use [of ALAS] was unlicensed and extracontractual." *Id.*, at 59a. The Court then concluded that it would "imply a contract at law for Daimler's post-termination use of ALAS, and Summit is entitled to quantum meruit recovery for that period of time." *Id.*, at 60a. The Court noted that "ALAS was worth much more to Daimler than it was worth to Summit. ALAS source code was integrated into Daimler's leasing software, where it performed many vital functions." *Id.* At this point, the Court's opinion is difficult to follow: while recognizing that quantum meruit was defined as "as

much as deserved," the Court rejected the argument that Daimler should pay the "market price to replace ALAS immediately after termination." Instead, the Court ruled that Summit's damages were limited to "the value of ALAS to Summit" but not "on the value of ALAS to Daimler at the time of termination." *Id.*, at 62a-63a. As noted below, the District Court got the concept of unjust enrichment exactly backwards.

In response, and without waiving its right to object to the court-enunciated quantum meruit theory, Summit submitted a statement explaining the factual support for "quantum meruit" damages. One component of this was Summit's extrapolation of existing licenses to the much larger Daimler license. Another component was evidence of amounts that Daimler paid for similar software licenses during the same period.

On February 13, 2007, the District Court entered an order dismissing the quantum meruit claim and a final judgment in favor of Daimler. Pet. App. 49a. The Court would not accept the proof of Summit's extrapolation or of Daimler's licensing history.

Summit appealed to the Sixth Circuit. The parties briefed and argued the issues raised by the District Court's decision, including whether Summit was barred from pursuing a trade secret claim because it did not "possess" a copy of the source code. Summit explained that the District Court's reliance on *DTM Research, L.L.C. v. A T & T Corp.*, 245 F.3d 327 (4th Cir. 2001), was misplaced because that case

stood for the irrelevant proposition that where a plaintiff in a trade secret case ***cannot establish ownership*** of the trade secret, it might be sufficient for the plaintiff, as an alternative to ownership, to establish ***possession*** of the knowledge underlying the trade secret (and not, interestingly, physical possession). Because Summit had already conclusively established ***ownership*** of ALAS, Summit did not need to rely on this alternative "possession" argument.

The Court of Appeals issued its Opinion on August 20, 2008. Pet. App. 1a. On the trade secret claim, the Court of Appeals bypassed the issue of whether Summit possessed ALAS and any other arguments about the creation or ownership of a trade secret. Instead, the Court of Appeals focused ***for the first time on a standard not briefed by the parties or found in any reported case: whether ALAS had "independent economic value" at the "time ALAS was misappropriated."*** *Id.*, at 11a. In other words, the Court of Appeals was willing to presume that ALAS was at one time a trade secret (and it certainly was when it was licensed to Daimler in 1983), but concluded that ALAS ***lost*** its trade secret status at some later point. Without the benefit of any input from the parties and certainly without an understanding of the record, the Court (1) misunderstood trade secret law; (2) relied on its mistaken belief about Summit's marketing efforts, which had actually continued through the time that Daimler misappropriated ALAS; (3) ignored the fact that ALAS had tremendous value to Daimler, its single

biggest user, as well as Summit's other licensees; and (4) stripped ALAS of its trade secret protection.

On the unjust enrichment claim, the Court acknowledged that unjust enrichment was a valid legal theory that should apply even with an express contract in place; the Court did not rely on any of Daimler's arguments to the contrary. The Court also agreed that ALAS had significant value to Daimler. However, the Court decided that there was nothing "unjust" about Daimler's post-termination use of ALAS because ALAS was "an obsolete product with no value in the extrinsic market." *Id.*, at 20a-21a. As with the trade secret claim, the Court thus announced a new theory – after six years of litigation – for rejecting Summit's claim. Daimler had not made this argument about the "unjust" element of an "unjust enrichment" claim, ***so there were no briefs on the issue***. Not surprisingly given the lack of input from the parties, the Court's decision is wrong.

Summit filed a timely Petition for Rehearing on September 3, 2008, which the Court summarily denied on September 22, 2008 (the Court did not even fill in the blank in the form that would identify which party filed the Petition). Pet. App. 112a.

REASONS FOR GRANTING THE PETITION

There are two compelling reasons for granting this Petition. First, the Sixth Circuit completely failed to analyze or apply basic trade secret and unjust enrichment principles related to the intellectual

property rights associated with computer software, effectively eviscerating those rights in a situation where the owner stops actively marketing the software (and the Court ignored the record related to Summit's marketing efforts). Even Daimler did not and could not advance the arguments eventually relied upon by the Sixth Circuit.

Second, the grounds for the Sixth Circuit opinion were not raised in any pleadings or briefs over the six years that this case was litigated. Not to be overly hyperbolic, but this Court should have serious concerns about how such a poorly reasoned opinion could have been issued ***without the benefit of a single brief***, given the nationwide significance of the case. To cite this Court's Rule 10(a), the Court of Appeals "so far departed from the accepted and usual course of judicial proceedings, or sanctioned such a departure by a lower court, as to call for an exercise of this Court's supervisory power." In addition, the Court of Appeals "decided an important question of federal law," namely, when a trade secret ceases to exist, that "has not been, but should be, settled by this Court." The case is therefore appropriate for review under Rule 10(c) as well.

While Summit certainly appreciates that the unpublished Sixth Circuit decision applies state, not federal, law, it is still true that the Sixth Circuit's complete misunderstanding of trade secret and unjust enrichment law will have nationwide significance for four reasons. First, the Sixth Circuit's ruling interprets the Michigan version of the Uniform Trade Secrets Act, enacted by 45 states. A software licensor

may now "lose" its trade secret in Michigan by ceasing to actively market the software. Once a trade secret is "lost" it is lost everywhere. Second, the case will affect federal decisions under the Economic Espionage Act of 1996, which criminalizes certain types of trade secret misappropriation. 18 U.S.C. §1831 et seq. This Act contains a definition of a trade secret that parallels the Michigan version of the Uniform Trade Secrets Act. 18 U.S.C. §1839(3); *see* H.R. Rep. 104-788, at 12 (1996), *reprinted in* 1996 U.S.C.C.A.N. 4021, 4031; *U.S. v. Lange*, 312 F.3d 263, 267 (7th Cir. 2002). Third, the facts of this case are certainly going to occur repeatedly as software licensors around the country seek to enforce their intellectual property rights against licensees and others who infringe on those rights. Finally, as unjust enrichment jurisprudence continues to develop in the intellectual property area, courts around the country will look for guidance to the few decisions that exist applying unjust enrichment principles. The Sixth Circuit decision is one of those, even though it turns unjust enrichment and intellectual property jurisprudence on its head.

This is not just a question of a losing party being unhappy with the result. Instead, it is a question of the capacity of the judicial system to interpret and apply software licenses, trade secret law, intellectual property law, and unjust enrichment law, and to properly allow parties to supply input on these issues before deciding cases. Sophisticated parties in the software business, who draft and enter into such license agreements, are entitled to fair treatment

from the courts. Specifically, they are entitled to have their investment and intellectual property rights uniformly protected in such a way as to permit predictability.

There is also a critical unintended byproduct of the Court of Appeals' mistakes: counsel will be encouraged to litigate, and litigate, and litigate, if there is the slightest possibility that the Court of Appeals would do what it did in this case. Indeed, it could become necessary to litigate cases perpetually so that "no stone is left unturned," hoping that an appeals court might disregard all the arguments raised by the briefs and rely instead on fundamentally wrong legal principles and a misunderstanding of the record. Surely that cannot be the message that this Court intends to convey to the bar and the public.

1. THE SIXTH CIRCUIT DID NOT APPLY EXISTING TRADE SECRET OR INTELLECTUAL PROPERTY LAW

It is a fundamental principle of trade secret law that "the protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475 (1974). In this case, the Court of Appeals did not apply existing trade secret law, even though ALAS was a trade secret from its inception. Instead, the Court erroneously broke new ground when it held that ALAS lost its trade secret

protection. The Court believed ALAS had "no value" to Summit "at the time of the misappropriation" because Summit had stopped actively marketing ALAS.

The impact of this mistake on Summit is obvious. The nationwide impact of this mistake on nearly any business cannot be overstated, due to the widespread use of trade secret law across industries to protect inventions. Likewise, the mistake will affect criminal prosecutions under the Economic Espionage Act of 1996. Simply put, trade secret protection is a critical business tool. As this Court noted, in deciding that trade secret law was not pre-empted by federal patent law, "Even as the extension of trade secret protection to patentable subject matter that the owner knows will not meet the standards of patentability will not conflict with the patent policy of disclosure, it will have a decidedly beneficial effect on society. Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention. Competition is fostered, and the public is not deprived of the use of valuable, if not quite patentable, invention." *Kewanee Oil Co.*, 416 U.S. at 485 (1974). Further, endangering a licensor's trade secret protection runs afoul of an additional policy this Court enunciated,

> Another problem that would arise if state trade secret protection were precluded is in the area of licensing others to exploit secret processes. The holder of a trade secret would not likely share his secret with a

> manufacturer who cannot be placed under binding legal obligation to pay a license fee or to protect the secret. The result would be to hoard, rather than disseminate, knowledge. (citation omitted) Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance.

Id., at 486-487.

So it is true here that the Sixth Circuit's decision, prematurely ending ALAS's trade secret status, will have a damaging effect on the software licensing industry. Software licensors with significant investment in software development who may nonetheless decide for valid business reasons to cease marketing to new licensees will run the risk of losing the value of their investment overnight ***even if there are existing licensees who continue to generate revenue using the software***. Other inventors in

other fields will run this same risk. Of course, here, Summit did not even stop marketing its software or forfeit its right to generate potential revenue from its licensees.

As a starting point, it is undisputed that ALAS was originally a trade secret, that ALAS was licensed to Daimler as a trade secret (both contractually and extra-contractually), and that Summit owns all rights to all versions of ALAS. In the first appeal, the Sixth Circuit affirmed an injunction based on Summit's right to prevent wrongful use of its intellectual property.

For some reason, the timing of Summit's marketing of ALAS became important to the Court of Appeals in the second appeal. For now, we can take at face value the Court's belief that ALAS was marketed through 1993 (this is incorrect, as will be discussed below). Therefore, if Daimler's license to use ALAS had been terminated in 1992, and if Daimler had continued to use ALAS for 18 months thereafter, Daimler would have been liable for trade secret misappropriation. Summit's damages would have been based ***on the value to Daimler*** under well-established principles of trade secret and intellectual property law establishing two distinct methods for calculating damages: profits lost by the trade secret owner and unjust enrichment to the wrongdoer. MCL 445.1904; *Mike's Train House, Inc. v. Lionel, L.L.C.*, 472 F.3d 398, 415 (6th Cir. 2006); see *Proper Measure and Elements of Damages for Misappropriation of Trade Secret*, 11 A.L.R.4th 12, §§2[a], 10 ("even where the plaintiff has not shown that he has suffered any

loss on account of a misappropriation, he has been entitled to recover the defendant's profits.").

Given this analysis, the question becomes: what is the legal significance under trade secret law if Summit stopped marketing and selling ALAS to new customers before Daimler's misappropriation (again, this factual premise is wrong, as discussed below)? The Court's answer – that ALAS lost its trade secret status – is incorrect. Unfortunately, the Court did not support its conclusion with either statutory or case law, whether in Michigan or elsewhere, so Summit does not know how the Court reached its conclusion.[2] To answer this question correctly, the Court should have analyzed basic principles of trade secret jurisprudence regarding when, if ever, a trade secret becomes "stale" so as to lose its trade secret protection. And again, the Court mistakenly concluded that ALAS had lost its economic value to Summit.

The law here is clear: trade secrets do not become "stale," and may continue indefinitely so long as there is no public disclosure. See *Enterprise Leasing Co. of Phoenix v. Ehmke*, 197 Ariz. 144, 150, 3 P.3d 1064 (Az. App. 2000); *Amex Distributing Co., Inc. v. Mascari*, 150 Ariz. 510, 517, 724 P.2d 596 (Az. App. 1986) (citing two treatises for the proposition that "a true

---

[2] The Court cited *Mike's Train House, Inc. v. Lionel, L.L.C.*, 472 F.3d 398, 410-411 (6th Cir. 2006), but this case does not discuss under what circumstances a trade secret loses its status over time.

trade secret is entitled to protection of an indefinite duration."). "[T]he Uniform Act . . . makes it clear that secrets that are no longer in use may nevertheless come within the definition of 'trade secret.'" 2 Callmann on Unfair Comp., Tr. & Mono. §14:14 (4th Ed.). A trade secret may, of course, lose its status through disclosure. See *Disclosure of Trade Secret as Abandonment of Secrecy*, 92 A.L.R.3d 138 (2005) and 1 Roger M. Milgrim, *Milgrim on Trade Secrets* §§1.05-1.06 (2005). Similarly, patents are not "exhausted" until there is an initial authorized sale. *See Quanta Computer, Inc. v. LG Electronics, Inc.*, ___ U.S. ___ (2008).

Since there has never been a claim here that ALAS was publicly disclosed, there is no basis under trade secret law to conclude ALAS lost its trade secret status or that ALAS became stale. The Sixth Circuit's decision therefore throws trade secret law across the country into a state of confusion, as would a decision in a patent case holding that a patent is exhausted even before the initial authorized sale. Owners of intellectual property, whether trade secrets or patents, should not lose their rights on the whim of an appellate court.

As to whether ALAS had value to Summit, the Court mistakenly assessed (or overlooked) ALAS's ***actual*** and ***potential*** value to Summit by virtue of numerous current licensing agreements. Indeed, even if Summit was not actively marketing ALAS in 2003, ALAS was in use at that time to run Daimler's mammoth leasing operation and the significant lease

portfolios of other customers (primarily banks and leasing companies) – the Court noted "Daimler's continued dependence" on ALAS. Pet. App. 12a. Perhaps because this issue was not briefed, the Court overlooked that Summit (1) continued to provide upgrades and new installations to ALAS, from version 7.0 in the late 1980's through version 10.0 in 1999 (which was Y2K-compliant and within which version 6.0 was incorporated); (2) continued to receive maintenance fees from ALAS licensees who needed support and upgraded versions of ALAS; (3) kept the author of ALAS and other programmers on staff; (4) re-branded ALAS into MAXXUM; (5) marketed MAXXUM and OPTIMA (a Windows-based program with the same functionality that Kmart licensed in 2001 and that Summit encouraged Daimler to upgrade to); and (6) had produced all ALAS marketing material during discovery. (J.A. 456-58, 476, 2093-2104, 2136, 2222-55, 2277, 2330-32). The Court was simply wrong when it stated that "ALAS was not marketed or sold after 1993." And whether ALAS version 6.0 still had "market value" in 2003 is beside the point. The software product ALAS had significant actual value in 2003.

In addition, Summit's license agreements provided for ***potential revenue*** in 2003: if licensees wanted to expand their use of ALAS to other locations, they would have to pay an additional license fee under Summit's then-current pricing structure (which would include a per-user component). (J.A. 54, Software System Agreement, sec. 4.4). This "potential"

economic value satisfies MCL 445.1902(d)(1). See *Joint Stock Society v. UDV North America, Inc.*, 104 F. Supp. 2d 390 (D. Del. 2000) (protecting old vodka recipes with potential value). There is no way that the Sixth Circuit could have concluded, before trial on an issue never raised in the briefs, that Summit "has not provided sufficient evidence that ALAS derived economic value from its secrecy when it was allegedly misappropriated."

Like many software programs, ALAS obviously aged well. ALAS derived its ongoing value from its secrecy and its continued usefulness to Daimler and Summit's other customers. Therefore, whether or not Summit continued to market ALAS did not diminish ALAS's trade secret status. Similarly, Microsoft's decision to stop marketing Windows XP on June 30, 2008 in favor of Vista does not render that software "obsolete" or "antiquated," especially since there are 400 million copies in use.[3] And certainly it cannot be argued that XP's trade secret status disappeared on July 1, 2008.

Nor did Summit's marketing decisions reduce Summit's damages. Even if Summit stopped selling ALAS and could not show that it lost any profits from contemporaneous sales, Summit could still establish the well-established second prong of trade secret damages: the unjust enrichment value of Daimler's

[3] http://en.wikipedia.org/wiki/Windows_xp (last viewed August 28, 2008).

use of ALAS. Indeed, this second prong ***presupposes a situation where lost direct profits are either small or non-existent***.

In this case, ALAS's value, even if unique to Daimler and Summit's existing customers, was tremendous. Trade secret jurisprudence does not require Summit to demonstrate universal value or value in any other market in order to obtain damages. Indeed, trade secret jurisprudence, like intellectual property jurisprudence in general, recognizes the principle that disgorgement deters wrongful misappropriation of trade secrets. If this principle did not exist, large companies like Daimler, faced only with possible damages based on the sales history of small intellectual property owners like Summit, would have huge incentives to misuse intellectual property, as Daimler did here.

Here are the hypothetical situations that prove the dangerous flaw in the Court's decision: if ABC Software Co. owns software that meets all the requirements of a trade secret, and ABC licenses it ***only to XYZ Manufacturing, Inc.***, can XYZ tell the world about it simply because ABC did not undertake any other marketing efforts? If ABC's license to XYZ runs 90 days, can XYZ keep using the software or reveal it to a third party on day 91 simply because ABC did not undertake any other marketing efforts? If ABC's trade secret still works and ABC chooses not to disclose it, why does ABC lose its trade secret protection just because ABC decides it has made enough money from the single license to XYZ? Perhaps

because the issue was ***never briefed or argued***, the Sixth Circuit broke new ground in trade secret law when it decided that ALAS lost its trade secret status simply because Summit did not undertake ongoing marketing efforts.

The Court's holding will have terrible consequences for the software industry because software could lose its trade secret status as soon as its owner releases and markets a subsequent version, or simply decides for any number of reasons to no longer market the software. The entire investment model and pricing structure for software would have to be reconfigured to reflect this possibility. Software licensors will be put out of business. Even worse, this same fate could befall the owners of trade secrets across industries. Unless the Court's holding is reversed, trade secret owners would be prevented from obtaining injunctive relief and damages and prosecutors would be prevented from pursuing criminal penalties under the Economic Espionage Act, even when there is clear proof of trade secret misappropriation.

2. THE SIXTH CIRCUIT DID NOT APPLY FUNDAMENTAL PRINCIPLES OF UNJUST ENRICHMENT LAW

Summit also argued that it was entitled to unjust enrichment damages. Under fundamental principles of unjust enrichment, Daimler's unlicensed use of ALAS for 18 months to run a multi-billion dollar lease portfolio was not "just." However, when the

Sixth Circuit considered ALAS's "extrinsic market value" in evaluating the "justness" of Daimler's conduct, the Court erroneously merged two distinct legal concepts: (1) the "justness" of Daimler's conduct, which is ***not*** measured by ALAS's value in the market and (2) ALAS's value to Summit/Daimler, which is important to measure damages.

As with the trade secret analysis, the Court relied on its belief that ALAS was no longer marketed. The Court therefore concluded that Daimler's use was "not unjust." Pet. App. 20a-21a. As with the discussion of trade secret jurisprudence above, however, the Court failed to analyze the issue under unjust enrichment jurisprudence, which focuses on accomplishing restitution. See *Michigan Educational Employees Mutual Insurance Company v. Morris*, 460 Mich. 180, 198, 596 N.W.2d 142 (1999) (MEEMIC) ("This Court has long recognized the equitable right of restitution when a person has been unjustly enriched at the expense of another."). Simply put, unjust enrichment jurisprudence determines whether conduct is "just" or "unjust" based on the degree of Daimler's culpability, not on the "market value" of ALAS.

Of course, the Sixth Circuit's initial analysis was correct: principles of unjust enrichment control this situation because (1) Summit owns all versions of ALAS and (2) Daimler used ALAS without a license.

The Court's next step, however, was a mistake. The Court should not have defined whether Daimler's conduct was "just" or "unjust" by looking at whether

there was "an extrinsic market" for ALAS. As the Court noted in another unjust enrichment case, "defining a given situation as either just or unjust is subjective and not necessarily open to a clear and decisive answer; as one court explained, '[t]he notion of what is or is not 'unjust' is an inherently malleable and unpredictable standard.' DCB Constr. Co. v. Central City Dev. Co., 965 P.2d 115, 120 (Colo. 1998)." *Reisenfeld & Co. v. The Network Group, Inc.*, 277 F.3d 856 (6th Cir. 2002) (analyzing Ohio law).

Recent Michigan case law focuses on the defendant's culpability, and explains that a defendant avoids liability only if its unauthorized retention of property "had been completely innocent and without knowledge," or "innocent, just, or equitable." *Morris Pumps v. Centerline Piping, Inc.*, 273 Mich.App. 187, 729 N.W.2d 898 (2006). In that case, materials were abandoned at a construction site. There was no evidence that they could be re-sold or marketed. Nonetheless, the plaintiff prevailed on its unjust enrichment claim because the defendant retained a benefit from the materials and could not excuse its behavior as "innocent, just or equitable." In *B & M Die Co. v. Ford Motor Co.*, 167 Mich.App. 176, 421 N.W.2d 620 (1988), the Court affirmed a jury verdict based on unjust enrichment where plaintiff, a supplier to Ford, supplied unique technical assistance that improved Ford's efficiency, holding that it would be unjust for Ford to retain the benefit without compensating the supplier. The Court focused on Ford's conduct, not on whether the supplier could

demonstrate that its assistance had "extrinsic market value."

No Michigan case has ever held that "justness" and "equity" depend on the "extrinsic market value" of the good or service at issue. Indeed, to undersigned counsel's knowledge, no court in the country has ever adopted the Court's analysis and merged the concept of the "extrinsic market value" of the property retained with the concept of the wrongdoer's culpability. These are analytically distinct issues.

Therefore, in this case, there is no basis under principles of unjust enrichment to hold that Daimler's use of unlicensed software was "innocent, just or equitable." To the contrary, Daimler's unlicensed use of ALAS was sufficiently improper and wrongful that the lower court ***enjoined it from continuing***. The triggering event, Daimler's unauthorized disclosure to third parties, breached the license agreement and was undoubtedly "unjust." Daimler, knowing how important ALAS was, started this case to retain its license. Daimler lost this effort when the District Court granted Summit a permanent injunction, but Daimler continued to use ALAS in the meantime to generate billions of dollars in revenue. Daimler appealed, and lost again. During this process, Daimler pursued a previously dormant creditor of Summit's, convinced that creditor to foreclose on Summit's assets (including this case), and then was prepared to pay $1 million to the creditor to buy Summit's assets (including this case). With Summit's assets in hand, Daimler would then have dismissed this case and

avoided liability for its wrongful use of ALAS. Summit's bankruptcy filing prevented Daimler's scheme from succeeding. (R.E. 305, at 3, R.E. 340, Ex. A).

Certainly it cannot be said that Daimler acted innocently, justly or equitably when it continued to use ALAS for 18 months thereafter without a license, regardless of the "extrinsic market value" of ALAS. ***Indeed, as noted above, the purpose of the "unjust enrichment" component of intellectual property damages is to provide compensation even when there is a limited, or even non-existent, market.***[4]

There are three oft-discussed unjust enrichment cases that establish Summit's point, discussed in detail in Rogers, *Restitution for Wrongs and the Restatement (Third) of the Law of Restitution*, 42 Wake Forest L. Rev. 55, 68-74 (2007). In *John A. Artukovich & Sons, Inc. v. Reliance Truck Co.*, 614 P.2d 327 (Ariz. 1980), the court ruled that plaintiff could recover on an unjust enrichment theory because defendant obtained a benefit from the unauthorized use of plaintiff's crane, whether or not plaintiff could show that it suffered any loss.

---

[4] As a leading unjust enrichment scholar notes, " . . . the law of unjust enrichment is most acutely concerned with the . . . category in which the *gain* exceeds the *harm*. This category includes cases where . . . the plaintiff does not lose anything." Dagan, *Unjust Enrichment* (Cambridge Univ. Press, 1997) at 13; *see Reisenfeld & Co.*, 277 F.3d at 117, n. 1 (holding that damages for unjust enrichment, as distinguished from quasi-contract, are to be based on the benefit realized by the wrongdoer).

In the "Great Onyx Cave case," *Lee v. Edward's Administrator*, 96 S.W.2d 1028 (Ky. 1936), a landowner discovered the entrance to a cave on his property and developed the cave as a tourist attraction. The owner of adjacent land sued because the tours included portions of the cave system under his land. Even though the adjacent landowner never marketed the land or suffered any actual damages, the court ruled that he was entitled to recover a portion of defendant's profits.

The third case is "the well-known egg-washing machine case." *Olwell v. Nye & Nissan Co.*, 26 Wash.2d 282, 173 P.2d 652 (Wash. 1946). In that case, plaintiff and defendant had been co-owners of an egg business. In 1940, plaintiff sold his interest in the business to defendant but did not include plaintiff's egg-washing machine, which plaintiff put into storage. Later, defendant took the machine out of storage and used it without plaintiff's permission. The Court held that plaintiff could recover based on restitution, and that defendant's saved labor expense was an appropriate measure of the benefit wrongfully obtained by defendant. The Court rejected the argument that plaintiff could not pursue an unjust enrichment claim because the machine was in storage and not being marketed: "The very essence of the nature of property is the right to its exclusive use . . . However plausible, the appellant cannot be heard to say that his wrongful invasion of the respondent's property right to exclusive use is not a loss compensable in law. To hold otherwise would be subversive of all property rights since his use was

admittedly wrongful and without claim of right. The theory of unjust enrichment is applicable in such a case." *Id.*, at 286.

As Rogers concludes, "It seems highly unlikely that one really could provide evidence of the reasonable rental value of egg-washing machines in Tacoma, Washington in 1941. . . . Why not simply say that defendant doesn't get the advantage of appropriating the investment? That is exactly the result of the damage calculation approved by the court." *Restitution for Wrongs*, at 76.[5] See also *University of Colorado Foundation v. American Cyanamid Co.*, 342 F.3d 1298 (Fed. Cir. 2003) (defendant liable for disgorgement of profits earned by unjust enrichment where it copied the text of a confidential manuscript, even though the plaintiffs "never sought to patent or practice the invention at issue.") (discussed in Rogers, at 79); *Cross v. Berg Lumber Co.*, 7 P.3d 922, 935-6 (Wyo. 2000) (noting that unjust enrichment is "particularly appropriate where the plaintiff's loss is more difficult to measure than the defendant's unjustly saved avoidance costs," and that "where a tortfeasor consciously and wrongfully misappropriates another's property, he should expect to be dealt with harshly," and holding that plaintiff was entitled to an award based on disgorgement where "it would be difficult to calculate Berg's loss in terms of opportunity costs. . . . Unjust enrichment can occur when a defendant uses something belonging to the Plaintiff

---

[5] See also Dagan, *Unjust Enrichment*, at 80.

in such a way as to effectuate some kind of savings which results in or amounts to a business profit."); *Ablah v. Eyman*, 188 Kan. 665, 365 P.2d 181 (Kan. 1961) (approving a claim for unjust enrichment where plaintiff improperly kept defendant accountant's working papers, where "the working papers had a value only in their use by either plaintiffs or defendant. Manifestly, that value must be determined by its value to the user, and the resulting benefit rule is applicable as a measure of recovery.")

The Restatement (Third) Of Restitution And Unjust Enrichment (Tentative Draft No. 4, 2005), §42, specifically addresses the concept of interference with intellectual property. It provides that a wrongdoer is liable for damages even if there is no market for the plaintiff's lost right, see Illustration 6. Restatement (First), Restitution, Unjust Enrichment §1, comment (e), p. 14 (1937) states: "[i]n [some] situations, a benefit has been received by the defendant but the plaintiff has not suffered a corresponding loss or, in some cases, any loss, but nevertheless the enrichment of the defendant would be unjust." Section 40 of the Tentative Draft, comment b, at 48 makes clear that such a situation affects the damages analysis, but does not bear on liability: "The more difficult issues of valuation are accordingly those in which the defendant has made a use of the claimant's property for which there is no ordinary market; or in which the defendant has bypassed any market by

taking without asking, or by proceeding in the face of a refusal."[6]

The articles, treatises and cases all establish that whether Daimler's actions were "just" or "unjust" depends only on Summit's ownership of ALAS and on how Daimler conducted itself, and not on Summit's commercial exploitation of ALAS at any given time; whether Summit sold ALAS for $100,000, $50, or $0 does not matter. As with the trade secret analysis above, the Court put the concept of economic value into the wrong legal box. Summit established its claim for unjust enrichment by proving unequivocally that ***Daimler received enormous benefit by using ALAS*** and that Daimler was not acting "innocently or justly" when it used ALAS without a license (indeed, Daimler's "unjust" actions continued as Daimler secretly attempted to foreclose on Summit's assets, become the owner of ALAS, and dismiss this case). Fundamental legal principles are upheld, and none is undermined, if Daimler is ordered to pay the fair value of what it used without permission. Even if ALAS was not entitled to copyright protection and even if ALAS was no longer a trade secret, ALAS was still contract-protected intellectual property. For using this intellectual property without permission, Daimler should have been assessed damages based on the value of ALAS to Daimler. According to Daimler's own expert, this amount is at least $24 million per year.

---

[6] The Michigan Supreme Court has incorporated the first Restatement into its analysis of unjust enrichment. *MEEMIC*, 460 Mich. at 198.

Finally, the Court should note the procedural posture of the case. Summit maintains that, at a minimum, the Court should not have concluded that Daimler's conduct was "just" without allowing the case to go to trial. First, the Court erred substantively. Under Michigan law, whether a specific party has been unjustly enriched – a "subjective" inquiry – is a jury issue. *Keywell and Rosenfeld v. Bithell*, 254 Mich.App. 300, 657 N.W.2d 759 (2002) (lower court erred by directing a defense verdict on the unjust enrichment claim, viewing the evidence most favorably to the nonmoving party); *B & M Die*, 167 Mich.App. at 184 (rejecting argument that jury should not consider unjust enrichment claim).[7] Since Summit was entitled to have "all justifiable inferences" drawn in its favor, the Court was not in a position on this record to have granted summary judgment against Summit. Of course, as discussed above, Summit established that Daimler's actions were "unjust."

The Court also erred procedurally. Daimler never filed a Rule 56 motion on the issue of whether

---

[7] Michigan courts have noted that whether a claim for unjust enrichment can be maintained in the first place is a question of law. See *Restaurant Group, Inc. v. Pontiac*, 260 Mich.App. 127, 137, 676 N.W.2d 633 (2003). This applies, for example, to deciding whether a claim for unjust enrichment is barred by the existence of a written contract. In this case, the Court correctly determined as a matter of law that Summit's unjust enrichment claim was ***not barred*** by the written license. As a result, the next determination is a factual one: was Daimler "unjustly enriched." This is a jury question.

Daimler's use was "just" or "unjust." The lower court did not address the issue in its many opinions. The issue was not discussed in the briefs or at the oral argument before the Court of Appeals, nor did the Court seek additional briefing. Because the issue of the "justness" or "unjustness" of Daimler's unlicensed use of ALAS was not raised until the Court issued its opinion, Summit never had a chance to directly address this now-dispositive issue. This Court's Rule 10 was designed to remedy exactly this situation.

3. THE SIXTH CIRCUIT VIOLATED DUE PROCESS PRINCIPLES AND "SO FAR DEPARTED FROM THE ACCEPTED AND USUAL COURSE OF JUDICIAL PROCEEDINGS" BY ISSUING A DECISION ON ISSUES NOT RAISED IN ANY PLEADINGS OR BRIEFS

This Court has announced that a "fair trial in a fair tribunal is a basic requirement of due process." *In re Murchison*, 349 U.S. 133, 136 (1955). Further, the Court has held that denial of judicial review violates the Due Process Clause in certain situations. *See Honda Motor Co., Ltd. v. Oberg*, 512 U.S. 415 (1994) (rejecting Oregon's attempt to prevent judicial review of punitive damages awards). Here, of course, Summit had the right to appeal. Having created a right to appeal, the Courts must "act in accord with the dictates of the Constitution – and in particular, in accord with the Due Process Clause" – to ensure that an appeal is not reduced to the status of a "meaningless ritual." *Evitts v. Lucey*, 469 U.S. 387, 393-94, 401

(1985) ("the procedures used in deciding appeals must comport with the demands of the Due Process and Equal Protection Clauses of the Constitution.")

Summit's position is that there was nothing "fair" about the Sixth Circuit's deviation from fundamental legal principles where Summit was completely deprived of the opportunity to address those principles. It is not much of a logical stretch to argue that what the Court of Appeals did in this case is the equivalent of preventing the parties from filing any briefs. Certainly a criminal case could not be decided without allowing the defendant the opportunity to refute evidence; the Fourteenth Amendment also prohibits consideration during the sentencing phase of evidence that the defendant has not had an opportunity to rebut. See *Gardner v. Florida*, 430 U.S. 349, 358 (1977) (plurality opinion).

This case started in 2002. Summit obtained a permanent injunction, which was affirmed on appeal. Hundreds of pages of briefs have been written. Virtually every conceivable argument related to Summit's intellectual property rights in ALAS has been made by Daimler and rejected by the lower court and the Court of Appeals. And yet, the Court of Appeals' opinion ***is the first time*** that the two issues described above were identified as dispositive defenses. Summit respectfully suggests that fundamental principles of Due Process and judicial fairness dictate that, with so much at stake, the Court find that the Court of Appeals' decision constituted a denial of due process.

At a minimum, the Court of Appeals "so far departed from the accepted and usual course of judicial proceedings, or sanctioned such a departure by a lower court, as to call for an exercise of this Court's supervisory power." Following the Court's analysis, owners of intellectual property (whether a trade secret, copyright, patent, trademark or other contractually-protected intellectual property) would lose their rights simply because they no longer market or actively sell that intellectual property in an open market to new licensees. As a result, those who wrongfully use intellectual property would pay no penalty, even if they generate significant profit by doing so. This is not and cannot be the law of intellectual property. The software development and licensing industry would collapse if businesses and individuals were not penalized for using unlicensed software, especially in David and Goliath situations like this one. Yet that is exactly the effect of the Sixth Circuit's decision.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted. In the alternative, Petitioner requests summary reversal of the Sixth Circuit decision so that a jury can finally consider the damages due to Summit for Daimler's wrongful use of Summit's software for 18 months.

Respectfully submitted,

JONATHAN B. FRANK
JACKIER GOULD, P.C.
121 West Long Lake Road,
Suite 200
Bloomfield Hills, Michigan 48304
(248) 642-0500
Counsel for Petitioner

December 22, 2008

289 Fed.Appx. 916

United States Court of Appeals, Sixth Circuit.
DAIMLER-CHRYSLER SERVICES
NORTH AMERICA, LLC,
Plaintiff-Appellee,
v.
SUMMIT NATIONAL, INC.,
Defendant-Appellant.
No. 07-1357.

Aug. 20, 2008.

On Appeal from the United States District Court for the Eastern District of Michigan.

Before: SUHRHEINRICH, COLE, and GIBBONS, Circuit Judges.

JULIA SMITH GIBBONS, Circuit Judge.

This case involves a number of claims by **Summit National** Inc. ("SNI") against Daimler Chrysler Services North America, LLC ("DCS"). The claims relate to a "perpetual" license agreement, which allowed for DCS's use of SNI's Automated Leasing Account System ("ALAS") software. SNI argues that the district court erred by: (1) dismissing its claim for misappropriation of trade secrets; (2) dismissing its copyright infringement claim; (3) dismissing the remaining contract implied-in-law claim; (4) denying its motion *in limine* to strike expert testimony; and (5) denying its motion for attorneys' fees. We affirm the district court's judgment.

I.

Most of the relevant facts are not in dispute. SNI's predecessor, Stockholder Systems, Inc. ("SSI"), was the original owner of ALAS software. During the 1980's, SSI marketed ALAS through mass mailings, solicitations, and advertisements in trade journals. Ultimately ALAS customers included fifty-eight banks and financial institutions, two utilities, and ten other clients. SSI and its successors produced many versions of ALAS. The last recorded installation of ALAS occurred in April 1993.

In 1983, SSI entered into a Software Systems Agreement under which SSI granted DCS's predecessor, Mercedes-Benz Credit Corporation ("MBCC"), a "perpetual license" to use ALAS at its Portland, Oregon facility at a cost of $40,000. MBCC and DCS used ALAS to track leasing contracts, leasing customers, and vehicles subject to lease in the United States and Canada. Under the terms of the Software Agreement, ALAS could only be used at DCS's Portland facility to process data of DCS and its wholly owned subsidiaries. DCS could not use ALAS-characterized by the Software Agreement as a "trade secret" – at any other facility without notifying SSI and/or paying a license fee to SSI. The Software Agreement also included a non-disclosure provision requiring DCS to "take all reasonable steps to ensure" that ALAS would not be made available to any other person, firm, or corporation without SSI's written consent. SSI retained the right to terminate the Software Agreement if DCS breached and failed to

take appropriate corrective action within thirty days of receiving notice of such a breach.

SNI acquired the rights to ALAS in July 1998. Contrary to the Software Agreement, DCS employees and others working on behalf of DCS used ALAS at locations other than the Portland facility. Specifically, SNI provided evidence that: during late 1998 and 1999, three outside companies hired to work on ALAS gained access to its source code and downloaded it to facilities outside of Portland; in 2002 about 1400 DCS employees logged onto ALAS at non-Portland facilities; and in 2003, employees of an independent contractor hired to provide ALAS support and programming gained access to ALAS source code. DCS provided evidence suggesting that DCS and its contractors made significant changes to the ALAS system it used, causing it to no longer resemble the ALAS system licensed by SSI in 1983.

In May 2002, following notice to DCS and the thirty day cure period, SNI informed DCS that it was terminating the agreement and demanded that DCS cease using all licensed SNI products. DCS then initiated the present case by seeking a declaratory judgment that it was not in breach of the Software Agreement. SNI counterclaimed, seeking a declaratory judgment that DCS was in breach and injunctive relief prohibiting DCS from continued use of ALAS. On May 20, 2003, after the parties had filed cross-motions for summary judgment, the district court issued an order denying DCS's motion for summary judgment and granting in part SNI's motion for

partial summary judgment. The district court concluded, *inter alia,* that DCS had breached the Software Agreement by disclosing ALAS to third parties and that a genuine issue of material fact existed as to whether SNI suffered any damages as a result of this breach. The district court issued a permanent injunction requiring DCS to halt its use of ALAS software within 180 days.[1]

In June of 2003, SNI amended its counterclaim to add counts of misappropriation of trade secrets and copyright infringement. In response, DCS filed a second motion for summary judgment, arguing that, *inter alia,* because SNI did not possess the 1983 ALAS source code, it could not establish copyright infringement, breach of contract, or trade secret misappropriation. In an April 8, 2004 order, the district court determined that genuine issues of material fact remained regarding these issues and denied DCS's motion.

Following the April 2004 order, new evidence – now undisputed by the parties – came to light. First, it became clear that the 1983 version of ALAS source code ("ALAS 6.0") did not contain copyright notice. Second, SNI acknowledged that it did not possess its own copy of the ALAS 6.0 source code. In addition, SNI withdrew its claim for pre-termination breach of

[1] This court affirmed the injunction issued by the district court. *See DaimlerChrysler Servs. N. Am. v. Summit Nat'l, Inc.*, 144 Fed.Appx. 542 (6th Cir.2005).

contract damages relating to DCS's disclosure of ALAS source code to third parties. Given these developments, the district court revisited SNI's copyright, trade secret, and breach of contract claims.

In an April 2006 order, the district court: (1) dismissed SNI's copyright infringement claim, concluding that ALAS 6.0 was publicly distributed in 1983 without the notice then required under the Copyright Act; (2) dismissed SNI's trade secret claim, concluding that actual knowledge of the secret information was required, but absent; and (3) explained that SNI could still pursue "[e]quitable relief under a quantum meruit theory based on DCS's continued use of ALAS after SNI terminated the Software Agreement."[2] Therefore, only the "*quantum meruit*" claim – as articulated by the district court – survived this order.

In an August 3, 2006 order, the district court explained that *quantum meruit* "measures recovery under a quasi-contract or contract implied in law." It further explained that whereas "[i]n a typical quantum meruit case, the value of an object or service to a defendant will be roughly equal to its value to a plaintiff," in this case, "ALAS was worth much more to DCS" than to SNI. But the district court rejected

---

[2] The district court also noted that SNI could still pursue legal or equitable relief based upon DCS's use of ALAS at remote locations. But SNI subsequently withdrew its claim for damages based on this alleged breach.

SNI's argument that its damages should be based on an "'unjust enrichment' approach," that would quantify the value of DCS's post-termination use based upon the value of ALAS to DCS. Specifically, the district court explained that:

> [T]he appropriate measure of SNI's quantum meruit recovery here is based on the value of ALAS to SNI. In other words . . . how much money would a willing buyer have paid SNI for use of the ALAS source code at issue for eighteen months? . . . Whatever the number is, it must not be based on the value of ALAS to DCS at the time of termination. Because DCS had so substantially integrated ALAS into its leasing system, its replacement costs provide a poor indicator of the market value of ALAS. In sum, to recover quantum meruit damages on a theory of contract implied in law, SNI must come forward with evidence of what it reasonably could have charged a willing buyer, in an open market, for eighteen months of the use of source code at issue.

The eighteen months roughly constitute the period between when SNI terminated the Software Agreement (May 2002) and when DCS actually ceased using ALAS (on or around November 20, 2003). Following the August 2006 order, the district court ordered SNI to answer the following interrogatories: (1) "[What is] the amount it could have charged a willing buyer in an open market for eighteen months of use of the source code at issue ('the Quantum Meruit Damages')?"; and (2) "[Please identify] any

damages not identified in response to Interrogatory No. 1" including "the exact amount of those damages, the legal theories upon which those damages are based, the facts supporting the elements of such legal theory, [and] the methodology and calculations used in arriving at the claimed amount of damages."

SNI responded that "the amount is $3.225 million." It further explained that this number was premised upon, *inter alia,* the volume of DCS's leasing business, the number and locations of DCS users of ALAS, DCS's lease revenue, and the amounts DCS paid for subsequent software licenses.

In its February 13, 2007 order, the district court determined that SNI's answer was deficient because its damages calculation was based upon the value of ALAS to DCS (or what it might have cost DCS to replace ALAS). It further concluded that "SNI's failure to respond within the boundaries outlined in its prior opinions and proceedings is indicative of the fact that SNI is unable to produce admissible evidence that the value of ALAS 6.0 in the marketplace is anything other than zero." This conclusion was consistent with the July 2002 deposition testimony of Kenneth Duffy, president of SNI. At that time, Duffy stated that: "There is no market for ALAS. . . . I wouldn't in good conscience sell it to anybody." He also noted that SNI had made no efforts to sell ALAS since acquiring it in 1998. Finding that DCS's use of the ALAS source code did not cause SNI any *quantum meruit* damages, the district court dismissed the contract implied-in-law claim as a matter of law.

II.

This court reviews the grant of a motion for summary judgment *de novo. F.R.C. Intern., Inc. v. United States,* 278 F.3d 641, 642 (6th Cir.2002). Summary judgment is appropriate if "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). Summary judgment is not appropriate if "a reasonable jury could return a verdict for the non-moving party." *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). In reviewing a grant of summary judgment, we draw all justifiable inferences in favor of the non-moving party. *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.,* 475 U.S. 574, 587, 106 S.Ct. 1348, 89 L.Ed.2d 538 (1986).

III.

SNI argues that the district court erred by dismissing its misappropriation of trade secrets claim. SNI argues that (1) the "law of the case" doctrine foreclosed "relitigation" of whether ALAS constituted a trade secret, and (2) even if the issue could be litigated, the district court erred in concluding that ALAS was not a trade secret under Michigan law. Both arguments lack merit.

A.

SNI first argues that "law of the case" doctrine precluded the district court from determining that ALAS source code did not constitute a trade secret because this court had already "decided" this issue by affirming the district court's May 2003 order. "Under the doctrine of the law of the case, determinations of the court of appeals of issues of law are binding on both the district court on remand and the court of appeals upon subsequent appeal." *United States v. Campbell,* 168 F.3d 263, 265 (6th Cir.1999) (citation omitted). But "the trial court is free to consider any issues not decided expressly or impliedly by the appellate court." *Kavorkian v. CSX Transp., Inc.,* 117 F.3d 953, 958-59 (6th Cir.1997) (internal quotation marks and citation omitted).

This court's August 2005 opinion did not decide whether ALAS source code constituted a trade secret for the purposes of SNI's tort claim. Instead, this court affirmed the district court's May 2003 order granting partial summary judgment to SNI on its claim that DCS breached the Software Agreement by disclosing ALAS to third parties. The May 2003 order did not address whether ALAS source code constituted a "trade secret." In fact, SNI did not assert a trade secret claim until it amended its counterclaim on June 20, 2003. And this court's August 2005 opinion expressly provided that the April 2004 Order – in which the district court first addressed SNI's trade secret claim – "is not before us now."

B.

Alternatively, SNI argues that the district court erred because ALAS source code was SNI's trade secret. In this diversity action, we apply the choice of law provisions of the forum state. *See Uhl v. Komatsu Forklift Co., Ltd.*, 512 F.3d 294, 302 (6th Cir.2008). In tort actions such as this, Michigan choice of law principles provide that Michigan law applies absent a rational reason – such as another state's interest – to apply other law. *See Sutherland v. Kennington Truck Service, Ltd.*, 454 Mich. 274, 562 N.W.2d 466, 471 (1997). Because neither party offers a rational reason to apply any other law, Michigan law applies to SNI's trade secret (tort) claim. Under the Michigan Uniform Trade Secrets Act ("MUTSA"):

> "Trade Secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following:
>
> (i) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.
>
> (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Mich. Comp. Laws § 445.1902(d). Courts applying Michigan Law have further explained that a "trade

secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." *Hayes-Albion v. Kuberski,* 421 Mich. 170, 364 N.W.2d 609, 614 (1984) (quoting Restatement of Torts § 757, cmt. b); *accord Raymond James & Associates, Inc. v. Leonard & Co.,* 411 F.Supp.2d 689, 696 n. 3 (E.D.Mich.2006).

Of critical importance here, to be worthy of trade secret status, the secret information must afford the owner a competitive advantage by having value to the owner and potential competitors. *See Mike's Train House, Inc. v. Lionel, L.L.C.,* 472 F.3d 398, 410-11 (6th Cir.2006) (applying Michigan law); *see also U.S. West Communications, Inc. v. Office of Consumer Advocate,* 498 N.W.2d 711, 714 (Iowa 1993) (defining "independent economic value" as "information kept secret that would be useful to a competitor").

The district court concluded that because SNI could not produce a copy of ALAS source code, ALAS could not have provided SNI a competitive advantage over its competitors. The district court reasoned "that a person must actually know the secret information or possess the secret device in order to have an advantage over others."

We conclude that SNI has not provided sufficient evidence to suggest that ALAS derived any independent economic value from its secrecy when it was allegedly misappropriated. We need not resolve

whether to show that ALAS was a trade secret in 1998 – the first alleged instance of ALAS misappropriation – SNI was required to produce a copy of ALAS source code during discovery in 2003. The fact that SNI did not retain a copy of ALAS may suggest that the information was not particularly valuable to SNI in 1998. But other evidence also supports this conclusion. ALAS was not marketed or sold after 1993. Moreover SNI's president acknowledged that by 2002, ALAS had no market value. While ALAS could theoretically have still had some value to SNI or its competitors in late 1998 despite these facts, SNI has offered no evidence to suggest this. Instead, it has only offered evidence regarding the value of ALAS to DCS due to DCS's continued dependence on the antiquated software. This evidence alone does not create a genuine issue of material fact as to whether ALAS afforded SNI a competitive advantage based on its value to SNI and potential competitors, *see Mike's Train House,* 472 F.3d at 410-11, at the time of its alleged misappropriation. Therefore, the district court did not err in dismissing this claim as a matter of law.

IV.

SNI next argues that the district court erred by dismissing its copyright infringement claim. SNI claims that DCS infringed its copyright for ALAS 6.0. The 6.0 version of ALAS was licensed to DCS in 1983. Under the Copyright Act in effect at that time, 17

U.S.C. 405(a) (1982),[3] notice was required for a "publically distributed" work to be protected by the Act. This notice requirement still applies to works publicly distributed prior to the Berne Convention Implementation Act of 1988. *See Norma Ribbon & Trimming, Inc. v. Little,* 51 F.3d 45, 48 (5th Cir.1995). SNI acknowledges that it sold ALAS 6.0 without notice, but argues that notice was not required because it did not "publically distribute" ALAS 6.0. Although the Copyright Act does not define "publically distributed," courts have looked to the Act's definition of "publication" to determine whether a work was "publicly distributed." *See Intown Enterprises, Inc. v. Barnes,* 721 F.Supp. 1263, 1265 (N.D.Ga.1989); *Schuchart & Assocs. v. Solo Serve Corp.,* 1983 WL 1147, at *13 (W.D.Tex. June 28, 1983). "'Publication' is the distribution of copies . . . of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies . . . to a group of persons for purposes of further distribution, public performance, or public display, constitutes publication. . . ." 17 U.S.C. § 101.

---

[3] This provision provided:

> Whenever a work protected under this title is published in the United States or elsewhere by authority of the copyright owner, a notice of copyright as provided by this section *shall* be placed on all publicly distributed copies from which the work can be visually perceived . . .

17 U.S.C. § 401(a) (1982) (emphasis added).

"Limited publication," an exception to this definition, allows plaintiffs to proceed with infringement actions without fulfilling the notice requirement. *See Intown Enterprises,* 721 F.Supp. at 1265; *Williams v. Arndt,* 626 F.Supp. 571, 578 (D.Mass.1985). Limited publication occurs where a work is distributed (1) to a definitely selected group of people; *and* (2) for a limited purpose, without the right of further reproduction, distribution or sale. *D.C.I. Computer Sys. Inc. v. Pardini,* 1992 WL 323325, at *1 (9th Cir. Nov.5, 1992) (citing *White v. Kimmell,* 193 F.2d 744, 746-47 (9th Cir.1952)); *Brown v. Tabb,* 714 F.2d 1088, 1091 (11th Cir.1983). Both prongs of this test must be met for notice to be excused. *Brown,* 714 F.2d at 1091.

The first requirement is satisfied where a plaintiff only distributes a work to "a definite, very selective group." *Williams,* 626 F.Supp. at 573, 578 (commodities trading booklet distributed to eleven preferred customers who requested it); *see also Intown Enters.,* 721 F.Supp. at 1265-66 (building plans distributed to a limited group of subcontractors for bidding purposes). This prong is not satisfied where a plaintiff distributes a work to the general public, *Data Cash Sys., Inc. v. JS&A Group, Inc.,* 628 F.2d 1038, 1041-43 (7th Cir.1980), or even to a targeted market sector, *see D.C.I. Computer,* 1992 WL 323325, at *1 (program licensed "to any . . . vehicle dealership in the country that would agree to enter a contract"); *M & A Assocs., Inc. v. VCX, Inc.,* 657 F.Supp. 454, 462 (E.D.Mich.1987) (movie distributed to a number of

adult cinemas for public viewing), *aff'd* 856 F.2d 195 (6th Cir. Aug.15, 1988) (unpublished table decision).

ALAS does not meet this requirement. ALAS was aggressively marketed through mass mailings, solicitations, and advertisements in trade journals. While its marketing may have been somewhat targeted, ultimately ALAS customers included a variety of banks, financial institutions, utilities, and other corporations willing to pay for it. Because ALAS was not provided to a definite, very selective group, the district court properly dismissed SNI's copyright claim.

V.

We next address SNI's contract implied-in-law claim. The district court, *sua sponte* suggested that SNI could pursue recovery for DCS's post-termination use of ALAS based upon a "*quantum meruit*" theory. It eventually dismissed any such contract implied-in-law claim after concluding that SNI had failed to establish that ALAS had any market value. On appeal, SNI essentially argues that as part of its contract implied-in-law analysis, the district court should have considered damages under an unjust enrichment theory – focusing on DCS's enrichment as a result of using ALAS following the termination of the Software Agreement. We conclude, however, that SNI has not established the unjust enrichment or inequity required to prevail under Michigan law on a contract implied-in-law theory.

A.

In determining the applicable substantive law in contract actions, the Michigan Supreme Court has provided some indication that we should look to the approach found in the Restatement (Second) of Conflict of Laws. *See Chrysler Corp. v. Skyline Indus. Services, Inc.*, 448 Mich. 113, 528 N.W.2d 698, 703-04 (1995); *see also Mill's Pride, Inc. v. Continental Ins. Co.*, 300 F.3d 701, 705 (6th Cir.2002). Under this approach, choice of law provisions are given effect "if the particular issue is one which the parties could have resolved by an explicit provision in their agreement directed to that issue." Restatement (Second) of Conflict of Laws § 187(1). The Software Agreement in this case provides that it is to be "governed by the laws of . . . Georgia." Because the implied-in-law contract claim at issue in this case does not arise from the Software Agreement itself, however, the district court concluded that Michigan law applies to this claim. Because neither party disputes this conclusion on appeal, we will assume that Michigan law applies to this claim.[4]

[4] In any event, we see no conflict of law issue here as the application of Georgia law would not lead to a different result. *See infra* note 6.

B.

As an initial matter, DCS argues that a contract implied-in-law could not exist covering DCS's post-termination use of ALAS because an express contract (the Software Agreement) already existed. "An implied contract cannot be enforced where the parties have made an express contract covering the same subject matter." *Scholz v. Montgomery Ward & Co.*, 437 Mich. 83, 468 N.W.2d 845, 849 (1991). But in this case, once the Software Agreement was terminated, it did not cover the "same subject matter" as the implied-in-law contract, which covered DCS's continued, *post-termination use* of ALAS. Thus the district court did not err by allowing SNI to pursue an implied-in-law contract remedy.

C.

SNI argues that the district court erred in analyzing the contract implied-in-law claim by not considering any potential unjust enrichment to DCS. It is not surprising that SNI would make this argument. Because DCS relied upon ALAS, the value of ALAS to DCS was significant; but the value of ALAS to SNI – and to the world market – was likely zero.[5] Again, SNI never pled damages based on any contract implied-in-law theory. Instead, the district court noted

[5] Again, Kenneth Duffy, president of SNI, stated in deposition that: "There is no market for ALAS. . . . I wouldn't in good conscience sell it to anybody."

that SNI could pursue "*quantum meruit*" damages for DCS's post-termination use of ALAS based upon an implied-in-law contract theory. The district court then concluded that these damages should be based on the value of ALAS to SNI, not to DCS. Under Michigan law, contracts implied-in-law have given rise to claims termed "*quantum meruit*" and "unjust enrichment." Therefore the district court's focus on the phrase "*quantum meruit*" was somewhat confusing. Regardless, we conclude that SNI has not shown the element of unjust enrichment or inequity that is required to establish a contract implied-in-law claim.

A contract implied-in-law is "imposed by fiction of law, to enable justice to be accomplished, even in case no contract was intended." *Cascaden v. Magryta,* 247 Mich. 267, 225 N.W. 511, 512 (1929). "A contract may be implied in law where there is a receipt of a benefit by a defendant from a plaintiff and retention of the benefit is inequitable, absent reasonable compensation." *Matter of Estate of Lewis,* 168 Mich.App. 70, 423 N.W.2d 600, 603 (1988) (citation and quotation marks omitted). Thus, under Michigan law, part of the rationale for implying a contract-in-law – whether it is called unjust enrichment or *quantum meruit* – is to prevent unjust enrichment. *Dumas v. Auto Club Ins. Ass'n,* 437 Mich. 521, 473 N.W.2d 652, 663 (1991) (explaining that the elements of a "contract-in-law . . . to prevent unjust enrichment . . . are: (1) receipt of a benefit by the defendant from the plaintiff and, (2) which benefit it is inequitable that the defendant retain") (citation and quotation marks omitted);

Roznowski v. Bozyk, 73 Mich.App. 405, 251 N.W.2d 606, 608 (1977) (explaining that in granting *quantum meruit* relief, "the court conclusively implies an intent to pay for services, in order to prevent unjust enrichment"). Once a contract is implied-in-law, courts applying Michigan law – unlike courts in other jurisdictions – have used both the phrase "quantum meruit" and "unjust enrichment" to describe the theory of recovery. *See, e.g., In re Estate of McKim v. Cornell,* 238 Mich.App. 453, 606 N.W.2d 30, 33 (1999) ("*quantum meruit*"); *Kammer Asphalt Paving Co. v. East China Township Sch.,* 443 Mich. 176, 504 N.W.2d 635, 640 (1993) ("unjust enrichment"); *Morris Pumps v. Centerline Piping, Inc.,* 273 Mich.App. 187, 729 N.W.2d 898, 907 (2006) (using the phrases interchangeably).

Regardless of what SNI's contract implied-in-law claim is called, it requires a showing that DCS was unjustly enriched.[6] "Even where a person has received a benefit from another, he is liable to pay therefor only if the circumstances of its receipt or

---

[6] Under Georgia law, an unjust enrichment claim is also based on a contract implied-in-law theory. *Engram v. Engram,* 265 Ga. 804, 463 S.E.2d 12, 15 (1995) ("[U]njust enrichment applies when as a matter of fact there is no legal contract . . . , but where the party sought to be charged has been conferred a benefit by the party contending an unjust enrichment which the benefited party equitably ought to return or compensate for.") (citation and quotation marks omitted). A plaintiff has the burden of showing that a benefit conferred to a defendant was unjust. *Id.*

retention are such that, as between the two persons, it is *unjust* for him to retain it." *Dumas,* 473 N.W.2d at 663 (emphasis added) (quoting Restatement of Restitution, § 1, cmt. c.); *see also Hollowell v. Career Decisions, Inc.,* 100 Mich.App. 561, 298 N.W.2d 915, 920-21 (1980) (concluding that summary judgment was appropriate where the plaintiff failed to offer any proof indicating that the value of the services she performed exceeded the compensation she received). The Michigan Supreme Court has emphasized that implying a contract-in-law to prevent unjust enrichment "should be approached with some caution." *See Dumas,* 473 N.W.2d at 663 (citation and quotation marks omitted).

In this case, although DCS retained a benefit by using ALAS following termination of the Software Agreement, SNI has failed to persuade us that allowing DCS to retain this benefit is *unjust.* The Software Agreement originally allowed DCS to use ALAS indefinitely. When DCS breached the agreement by disclosing ALAS to third parties, SNI was entitled to seek an injunction and any actual damages resulting from the breach.[7] Clearly DCS was benefitted by using ALAS during litigation and for an additional 180 days, pursuant to the district court's decision to allow this limited post-termination use. But SNI has not shown how DCS's continued use of an obsolete

[7] Again, SNI withdrew its claim for damages associated with DCS's breach through third-party disclosure.

product with no value in the extrinsic market was unjust. Even when the district court explicitly provided SNI – through special interrogatories – an additional opportunity to advance other theories of recovery, SNI failed to offer any evidence of injustice associated with DCS's use of ALAS for eighteen months following termination of the Software Agreement. Because we are to approach the business of implying contracts-in-law with caution and because SNI has failed to convince us that injustice occurred in this case, we conclude that the district court did not err in dismissing the remaining contract implied-in-law claim.[8]

As a result, we need not address SNI's contention that the district court erred in denying its motion *in limine* to strike expert testimony related to the issue of contract implied-in-law damages.

VI.

Finally, SNI argues that the district court erred by denying its motion for attorney's fees without prejudice. Pursuant to the Software Agreement, which provides that the "prevailing party" may claim attorney's fees, SNI filed a motion requesting attorney's fees after the district court enjoined DCS from

---

[8] Because we conclude that SNI failed to establish the element of injustice required to establish a contract implied-in-law, we need not determine whether the district court properly analyzed damages under a *quantum meruit* theory.

using ALAS after 180 days. The district court denied SNI's motion without prejudice. SNI did not filed any subsequent motions requesting attorney's fees.

As an appellate court, we only have jurisdiction to entertain appeals from final orders. 28 U.S.C. § 1291. Attorney fee issues are subject to these "ordinary principles of finality," and if not ruled on by the district court, are not reviewable by this court. *Apponi v. Sunshine Biscuits, Inc.*, 809 F.2d 1210, 1219-20 (6th Cir.1987). "[A] dismissal without prejudice is not a 'final order' within the meaning of 28 U.S.C. § 1291." *United States v. Moss,* 217 F.3d 426, 430, n. 1 (6th Cir.2000). Because the district court did not issue a final order on the issue of attorney's fees and did not make findings of fact regarding the amount of any such attorney's fees, we conclude that this claim is not properly before this court.

VII.

For the foregoing reasons, we affirm the district court's dismissal of SNI's trade secret, copyright, and contract implied-in-law claims.

2006 WL 1420812

United States District Court, E.D. Michigan,
Southern Division.
DAIMLERCHRYSLER SERVICES,
Plaintiff,
v.
SUMMIT NATIONAL,
Defendant.
No. 02-71871.

May 22, 2006.

Jane D. Quasarano, Joseph J. Shannon, III, Bodman, Detroit, MI, Nicole R. Foley, Jaffe, Raitt, Southfield, MI, for Plaintiff.

Robert D. Gordon, Clark Hill, Detroit, MI, Jonathan B. Frank, Jackier, Gould, Bloomfield Hills, MI, for Defendant.

ORDER DENYING PLAINTIFF'S MOTION TO VACATE ORDER [323], DENYING PLAINTIFF'S MOTION TO STRIKE AND TO IMPOSE SANCTIONS [328], AND DISMISSING DEFENDANT'S COPYRIGHT AND TRADE SECRETS CLAIMS

EDMUNDS, J.

This case began just over four years ago, when Defendant Summit National, Inc. ("SNI") discovered that it had an ownership interest in Automated Leasing Account System ("ALAS") software, which was used by Plaintiff DaimlerChrysler Services ("DCS"). SNI's predecessor, Stockholder Systems, Inc. ("SSI"), had entered into a perpetual software

licensing agreement with DCS's predecessor, Mercedes-Benz Credit Corporation ("MBCC"). SNI determined that DCS was in breach of the agreement, and sent a letter to DCS demanding DCS to cease use of ALAS.

DCS responded with a declaratory action against SNI, apparently attempting to shake off a pesky litigant. SNI counterclaimed, however, and as the facts developed in its favor – or were represented to have developed in its favor – this case turned into a massive lawsuit with hundreds of millions of dollars in potential damages, most of which were based on SNI's copyright and trade secret claims. Now, after a number of twists and turns and further development of the facts, the case has come full circle. For the reasons discussed below, the Court hereby DISMISSES SNI's copyright and trade secrets claims.

I. Background

The early background to this case has been accurately summarized by the Sixth Circuit Court of Appeals:

> In 1983, SSI, which owned and marketed ALAS, entered into a "Software System Agreement" under which SSI granted MBCC a "perpetual license" to use ALAS at its Portland, Oregon facility. DCS is the successor-in-interest to MBCC. ALAS provided the software platform used by DCS to track leasing contracts, leasing customers, and vehicles subject to lease in the United States and

Canada. The Software Agreement contemplated that the software would be used only by DCS at the Portland facility to process its own data and the data of any of DCS's wholly owned subsidiaries. The agreement stated that DCS could not use ALAS, which was a "trade secret," at any other facility without notifying SSI and/or paying a license fee to SSI. There was also a non-disclosure provision in the agreement, charging DCS with the responsibility to "take all reasonable steps to ensure" that ALAS or any portion thereof would not be made available to any other person, firm, or corporation without SSI's written consent. DCS reserved "the right to modify the Products to meet DCS's particular needs and requirements," and SSI "acknowledged the proprietary rights of DCS in any such modification." SSI retained the right to terminate the agreement if DCS breached the agreement and failed to take corrective action within thirty days of receiving notice from SSI of such breach. . . .

The last recorded installation of ALAS occurred in April 1993 in the Philippines. At some point between 1983 and 1998, Checkfree apparently acquired the rights to a system called ALAS from SSI. In July 1998, CheckFree sold certain assets to SNI. . . . [O]ne of these assets was the ALAS software

and that SNI acquired all rights related to ALAS. . . .[1]

The ALAS system was installed at DCS's Portland facility. However, many DCS employees, including about 1400 employees in 2002, logged on to ALAS from locations outside of Portland. . . . [D]uring the late 1990s, three outside companies worked on ALAS and had access to its source code. At various points during these companies' work on ALAS, the ALAS source code was downloaded and moved to facilities other than the Portland facility, including a DCS facility in Connecticut. [E]mployees of an independent contractor, Ciber, continued to work on support and programming of the ALAS system in 2003. . . . [T]hese contractors had access to the ALAS source code. . . . [A]ll third parties who had access to ALAS were required to sign confidentiality agreements. . . .

DCS . . . presented evidence suggesting that the ALAS system in use by DCS . . . was not the same as, or even relatively similar to, the ALAS system licensed . . . by SSI in 1983. . . .

On April 18, 2002, DCS received a letter (dated April 10) notifying it that SNI considered DCS in breach of the Software Agreement. SNI invoked the 30-day cure period set

[1] In earlier stages of litigation, SNI's ownership rights to ALAS were contested. That issue has since been resolved.

> out by the agreement and demanded that DCS cease its breach of the agreement within that period. In a letter dated May 10 (but received by DCS on May 8), SNI informed DCS that it was terminating the agreement and demanded the cessation of the use of all licensed SNI products.

DaimlerChrysler Servs. N. Am. v. Summit Nat'l, Inc., 144 Fed. Appx. 542, 543-46 (6th Cir.2005) (footnotes omitted) (some brackets omitted).

DCS initiated this case on May 9, 2002, by filing an action for a declaratory judgment that it was not in breach of the Software Agreement. SNI counterclaimed, seeking a declaratory judgment that DCS was in breach, as well as injunctive relief prohibiting DCS from continued use of ALAS.

In early 2003, the parties filed cross-motions for summary judgment. Based on the claims and counterclaims, the only issue before the Court was a relatively straightforward contract question: Whether DCS had breached the Software Agreement. Notwithstanding its failure to plead the issue, however, SNI also argued that DCS had infringed upon its copyright in ALAS.

On May 20, 2003, this Court issued an Order denying DCS's Motion for Summary Judgment and granting in part SNI's Motion for Partial Summary Judgment ("the May 2003 Order"). Among its findings, the Court ruled that (1) SNI has ownership rights in ALAS, (2) a genuine issue of material fact

exists as to whether DCS violated the Software Agreement by using ALAS at remote locations, (3) DCS breached the Software Agreement by disclosing ALAS to third parties, (4) SNI had not shown the absence of a genuine issue of material fact as to whether DCS infringed SNI's copyright in ALAS (or even pled the issue), and (5) a genuine issue of material fact existed as to whether SNI suffered any damages by DCS's disclosure of ALAS to third parties. Because DCS had breached the Software Agreement by disclosing ALAS to third parties, the Court granted the equitable remedy that SNI sought: enforcement of the terms of the contract and revocation of DCS's license. The Court issued a permanent injunction requiring DCS to halt its use of ALAS software within 180 days.

In June of 2003, SNI amended its counterclaim to add counts of misappropriation of trade secrets and copyright infringement. DCS then amended its complaint to add a claim of civil extortion.

Largely in response to SNI's amended counterclaim, DCS filed a second Motion for Summary Judgment.[2] DCS argued that summary judgment was appropriate because (1) SNI did not have the 1983 ALAS source code, and therefore could not establish a genuine issue of material fact as to copyright

---

[2] DCS also filed a Motion to Dismiss SNI's Amended Counterclaim on July 3, 2003. The Court denied that Motion on October 9, 2003.

infringement, breach of contract, or trade secret misappropriation; (2) SNI's claimed damages were purely speculative; and (3) SNI had waived its rights by failing to stop past disclosure of ALAS source code. In an April 8, 2004 Order, the Court found that genuine issues of material fact remained regarding these issues, and denied DCS's Motion ("The April 2004 Order").

There are two aspects of the April 2004 Order that are relevant for the present purposes. First, as to SNI's contract claim, the Court made the following finding, based on evidence and arguments that had developed through discovery since the May 2003 Order:

> [T]o succeed on a breach of contract claim, SNI must prove a breach and damages resulting from the breach. . . . SNI alleges that DCS breached the Agreement by exposing the ALAS code to third parties. DCS defends that the code revealed to third parties was DCS code because of the multitude of modifications DCS made to the original code. However, DCS's own witnesses have identified the ALAS code on the DCS mainframe. Therefore, *a genuine issue of material fact remains as to whether the code revealed to third parties was the original source code, or whether it was modified to the extent that the original code was obsolete.*

(Doc. 213 at 18.) The Court understands that this statement appears on its face to be inconsistent with the earlier grant of summary judgment on behalf of

SNI on the issue of DCS's breach of the Software Agreement by disclosing ALAS to third parties. The Court did not, however, intend to reverse itself as to that issue. Instead, this statement acknowledges the relevance of DCS's modifications to ALAS for purposes of determining SNI's potential damages. The Court wishes to make clear that it has always considered DCS to have breached the Software Agreement by disclosing ALAS source code to third parties, and continues to see this as a settled issue.

Second, the April 8, 2004 Order relied on some important assumptions in denying summary judgment to DCS as to SNI's copyright and trade secrets claims. The Court noted, for example, "Copies of ALAS 6.0, 7.0 and 9.0 have been produced according to SNI," and, "SNI claims that it has the ALAS 6.0 source code." (Doc. 213 at 6, 16.) These statements were not surprising at the time, given SNI's repeated assertions that "SNI has the source code that it believes was licensed to DCS" and "SNI has located and is examining source code to respond to DCS's recent request to produce the 1983 source code." (Doc. 131 at 1, 3.) Moreover, in rejecting DCS's claim that SNI had an invalid copyright, the Court assumed that "ALAS 6.0 was copyrighted since a notice of copyright was incorporated into the source code, as attested to by DCS employee Victor Inglese." (Doc. 213 at 7.) At the time, "the parties [did] not dispute

that the source code for ALAS 6.0 installed at DCS contained a copyright notice." (*Id.* at 6.)[3]

On August 18, 2005, the Sixth Circuit Court of Appeals affirmed this Court's May 2003 Order. Although the Court of Appeals decision did not fully review this Court's April 2004 Order, the court briefly discussed the apparent inconsistency between the two Orders:

---

[3] These facts provided the basis for distinguishing two cases cited by DCS in support of its Motion for Summary Judgment as to the copyright issue:

> DCS cites . . . *Bridgmon v. Array Systems Corp.*, 325 F.3d 572 (5th Cir.2003). In *Bridgmon*, the plaintiff asserted claims for copyright infringement and breach of contract. The court there rejected the copyright claim because no copy of the software could be produced for comparison. Notably, the plaintiff in *Bridgmon* relied on just his own oral testimony and a witness'[s] reconstruction of the code as proof. *See id.* at 576. Here, the ALAS code is available for comparison by the Court and the parties' experts, so *Bridgmon* does not support DCS's [argument]. Furthermore, DCS's own employees testified that ALAS was installed on the DCS system, and that it contained a notice of copyright.
>
> DCS also relies on . . . *Coles v. Wonder*, 283 F.3d 798 (6th Cir.2002). In Coles, the plaintiff submitted a reconstruction of a recording with his copyright registration as opposed to a copy of the earlier recording. See id. At 801. The court in *Coles* held that the reconstruction was insufficient, and thus the registration was not valid. Coles is distinguishable here because this Court has not yet been presented with the source code . . . for a comparison. . . .

(Doc. 213 at 17.)

DCS makes much of the district court's April 8, 2004, order, which is not the subject of this appeal but seems to contradict the May 2003 order granting partial summary judgment and granting a permanent injunction. In the April 8, 2004, order, the court stated that "a genuine issue of material fact remains as to whether the code revealed to third parties was the original source code, or whether it was modified to the extent that the original code was obsolete." . . . The tension between the court's two statements is understandable to some degree, as much of DCS's evidence tending to show that there were different versions of ALAS was not submitted until after the May 20 order issued. . . . Whatever the explanation for the possible inconsistency, any contradiction in the district court's rulings does not necessitate any action by this court in connection with this appeal. The April 2004 order is not before us now. Moreover, the district court can reconsider its own rulings at any time in order to maintain consistency with itself. *See United States v. Reid,* 357 F.3d 574, 580 (6th Cir.2004) ("In both civil and criminal cases, a trial court is empowered to revisit any of its previous non-final rulings in the light of a perceived error or misjudgment, new relevant information, or even its simple conclusion that it may have acted in ill-considered haste."); *see also In re Air Crash Disaster,* 86 F.3d 498, 518 (6th Cir.1996). In addition, the district court will have another opportunity to consider the import of the evidence on the issue of DCS's

> disclosures, because the details of what was disclosed and its usefulness are highly pertinent to the damages issue, which the district court has yet to resolve.

DaimlerChrysler Servs., 144 Fed. Appx. at 549 (brackets omitted). The Sixth Circuit therefore acknowledged that the "tension" between this Court's May 2003 and April 2004 Orders was only a "possible inconsistency," and that the disclosure of ALAS source code to third parties remained "highly pertinent to the damages issue." Moreover, the court explicitly recognized that "the district court can reconsider its own rulings at any time in order to maintain consistency with itself." *Id.* As the facts have continued to develop, that is exactly what this Court has been compelled to do.

Since this Court ruled on the parties' Motions for Summary Judgment, both the legal posture and the facts of this case have changed in important ways. It has become clear that SNI does not possess its own copy of the ALAS 6.0 source code licensed by SSI to MBCC in 1983. SNI concedes this point, but maintains that whether it possesses ALAS is irrelevant. (*See* Doc. 325 at 21-26.) Until recently, the Court did not have occasion to disagree. In early 2006, however, SNI was forced to make another stipulation that has altered this case dramatically: "Based on the recent de bene esse deposition testimony of two former SSI employees, [SNI] is willing to agree that there was no [copyright] notice and that Mr. Inglese gave incorrect testimony." (Doc. 314 at 2.) Thus, contrary to the

Court's earlier understanding of the facts, it is now entirely clear that SNI never possessed ALAS 6.0 source code and that there was never a copyright notice on the ALAS 6.0 source code licensed to DCS. In addition, in response to DCS's and the Court's requests for a clearer picture of its claimed damages, SNI has recently withdrawn its claim for pre-termination damages relating to DCS's disclosure of ALAS source code to third parties.[4]

Based on these recent developments, the Court has been forced to revisit the following issues: (1) Given that ALAS 6.0 had no copyright notice, does SNI have a viable claim for copyright infringement? (2) Given that ALAS 6.0 had no copyright notice and that SNI has no copy of ALAS 6.0, does SNI have a viable claim for misappropriation of trade secrets? (3) Given that SNI has withdrawn its claim for pre-termination damages relating to DCS's disclosure of ALAS source code to third parties, does SNI have a viable claim for breach of contract?

---

[4] During a status conference on March 21, 2006, counsel for SNI stated, "No, if we're talking about the issue of whether I'm seeking damages because somebody came in, had access to, saw the source code and walked out the door with it, no, we've withdrawn those claims. . . ." (Mar. 21, 2006 Tr. at 33.)

II. Discussion

A. Copyright Claim[5]

SNI argues that notwithstanding its recent admission that the ALAS 6.0 source code licensed in 1983 lacked copyright notice, its copyright claim against DCS remains viable. "Because ALAS was not 'publicly distributed,' but was instead provided only to licensees with limited rights to use ALAS, no copyright notice was required under 17 U.S.C. § 101 and 405." (Doc. 297 at 14; Doc. 314 at 2.)

SNI relies on the doctrine of "limited publication," which alleviates the copyright notice requirement in certain instances. Professor Nimmer describes the doctrine as follows:

> A limited publication has been held to be a publication "which communicates the contents of a manuscript to a definitely selected group and for a limited purpose, without the right of diffusion, reproduction, distribution or sale." Thus, if an author distributes copies of his work to a circle of immediate friends with the express or implied understanding that such copies will not be duplicated or circulated, this is a limited publication. On the other hand, distribution to retailers for

---

[5] On March 27, 2006, this Court issued an Order dismissing SNI's copyright claim. For purposes of clarity, the Court wishes to explain all of the recent changes to this case in a single opinion, and therefore republishes the March 27, 2006 Order here with a few modifications.

ultimate distribution to the general public in itself constitutes a general, not a limited, publication.

1-4 *Nimmer on Copyright* § 4.13[A] (footnotes omitted).

The facts of the present case fall somewhere between Nimmer's two examples. ALAS was not merely distributed to a "circle of immediate friends," but neither was it shipped "to retailers for ultimate distribution to the general public."

The record reveals that SSI was in the business of marketing and selling ALAS to anybody interested in using it. D.R. Grimes, a former SSI official, testified that SSI's software "dealt with different kinds of things that banks did, but it was primarily banking or companies that did bank-like functions, financial systems." These companies included "many corporations." (Doc. 315 Ex. 2 at 10.) He reiterated that SSI licensed its software products "to a variety of banks and other corporations." (*Id.* at 14.)

In addition to Grimes's testimony, a "Joint Venture Agreement" between SSI and Louisiana National Bank required SSI to develop a "comprehensive marketing program" for ALAS, which included the distribution of brochures, mass mailings of solicitations, and advertisements in trade journals. (Doc. 315 Ex. 1 at 3.)

Finally, SSI's 1984 prospectus, prepared in conjunction with its initial public offering, states that

"[a]lthough financial institutions have been and continue to be the principal customers of [SSI], recent marketing efforts have emphasized licensing of its products to utilities and industrial companies." The prospectus goes on to note that ALAS was licensed to fifty eight "Banks and Financial Institutions," two "Utilities," and ten "Corporate and Other." (Doc. 315 Ex. 3.)

These facts set this case apart from the cases SNI relies upon. In *Intown Enterprises, Inc. v. Barnes,* 721 F.Supp. 1263 (N.D.Ga.1989), for example, the court noted that the materials at issue, building plans, had only been provided to a definite set of "subcontractors for bidding purposes" and "the appropriate governmental authorities for purposes of obtaining the required building permits." *Id.* at 1265-66. And in *Williams v. Arndt,* 626 F.Supp. 571 (D.Mass.1985), the plaintiff, who had written a booklet on commodities trading, "sent a copy to about 10 of his more preferred customers who had ordered the booklet in response to a promotional flier . . . limited to certain customers." *Id.* at 573.

Contrary to SNI's argument, ALAS was not merely provided to a "definite, very selective group." It was aggressively marketed and provided to anybody who would pay money for it, including banks, corporations, and utilities. The Court agrees with DCS and the cases it cites that the relevant inquiry is whether anybody who wanted a copy of ALAS could get one. *See, e.g., D.C.I. Computer Systems, Inc. v. Pardini,* 1992 U.S.App. LEXIS 29951, *2-3 (9th Cir.

Sept. 15, 1992) (limited purpose test not met where software was licensed "to any automobile or recreational vehicle dealership in the country that would agree to enter into a contract" and the "purpose in distribution was pecuniary gain"). Viewed this way, SNI did not "limit" its publication of ALAS. At best, it limited its marketing efforts to the audience it deemed most likely to listen. This was not enough to protect ALAS as a copyright.

The Court is satisfied that SSI's publication of ALAS was not "limited" in the legal sense, and was sufficiently far reaching that copyright notice was required. Because ALAS 6.0 was not protected by the doctrine of "limited publication" and because the parties have stipulated that it contained no copyright notice, it is not protected under the law of copyright. SNI's claim of copyright infringement must therefore fail.

B. Trade Secrets Claim

Although SNI alleged copyright infringement and misappropriation of trade secrets at the same time, the Court's attention – and, it seems fair to say, the parties' attention – has been focused primarily on SNI's copyright claim. When the Court was recently forced to reevaluate the copyright claim for the

reasons discussed above, however, it was also forced to take a closer look at SNI's trade secrets claim.[6]

Like its copyright claim, SNI's trade secret claim may potentially be affected by its recent stipulation that despite early evidence to the contrary, ALAS 6.0 has never been protected with copyright notice. DCS makes a strong argument that the absence of copyright notice, as well as SSI's widespread distribution

---

[6] In the April 2004 Order, the Court rejected DCS's contention that SNI's alleged inability to produce the ALAS source code defeated the trade secrets claim, and held that there was sufficient evidence to go to trial on the issue:

> SNI must prove that DCS disclosed or used SNI's trade secret without SNI's consent, and that at the time of disclosure or use, DCS knew that it had a duty to maintain the secrecy of the trade secret, or limit its use of it. The ALAS source code qualifies as a trade secret because it is a "program" that "derives independent economic value . . . from not being generally known" and efforts were made by SNI to maintain its secrecy. There is no authority to support DCS's contention that SNI's alleged inability to produce the ALAS source code warrants summary judgment in favor of DCS on this claim.

(Doc. 213 at 19 (internal citations omitted).)

In the same Order, the Court accepted SNI's assertion that it possessed ALAS source code. (*Id.* at 6, 16.) Thus, the Court was under the impression that SNI could produce ALAS source code, and therefore held that there was no factual support for DCS's argument. Nevertheless, the Court recognizes that this excerpt supports SNI's argument, and to the extent that the April 2004 Order might be seen as settling this issue, the Court expressly reverses itself based on further development of the record.

of ALAS source code, compel a finding that ALAS 6.0 has never been a trade secret. The Court finds it unnecessary to reach this issue, however. Regardless of whether ALAS was protected as SSI's (or anybody else's) trade secret, SNI has never enjoyed such protection.

SNI now concedes that despite its repeated assertions earlier in this litigation, it has never possessed ALAS source code that it now claims as its own protected trade secret. It obtained no source code in 1998 when it received the legal rights to ALAS, and despite its best efforts, has been unable to find ALAS source code on the market.[7] SNI argues, however, that possession is irrelevant, because "[t]he key concept is ownership, not physical possession." (Doc. 325 at 22.)[8] SNI is correct that courts typically focus on ownership as a required element of a claim for trade secrets misappropriation. *See* 4-15 Milgrim on Trade Secrets § 15.01[1](1). This does not mean that possession is irrelevant, however. Rather, in a typical trade secrets case, there is no need to focus on possession, since it is generally subsumed within ownership. And as a practical matter, only a party that is

---

[7] SNI has found some source code that, like DCS's source code, contains elements of ALAS within it or is heavily modified ALAS source code.

[8] Curiously, SNI goes on to suggest that ownership and possession are the same thing: "Simply put, [SNI] owns ALAS and . . . possesses ALAS directly and indirectly (it possesses ALAS everywhere its licensees possess ALAS)." (Doc. 325 at 24.)

privy to a trade secret would have cause to oppose the misappropriation of that secret. This is what sets SNI's trade secrets claim against DCS apart and, ultimately, renders it futile.

Under the Michigan Uniform Trade Secrets Act ("MUTSA"), Mich. Comp. L. § 445.1901 *et seq.*, a "trade secret" is defined as

> information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following:
>
> (i) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.
>
> (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Id. § 445.1902.

As the text of MUTSA suggests, the entire concept of a trade secret is something that has value *because of its secrecy.* Indeed, pre-MUTSA, the Michigan Supreme Court applied this precise definition: "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." *Hayes-Albion v. Kuberski,* 421 Mich.

170, 364 N.W.2d 609, 614 (Mich.1984) (quoting Restatement of Torts § 757 Comment b). The following factors were applied to determine whether a person had a trade secret:

> (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Id. (quoting Restatement of Torts § 757 Comment b). Applying these factors, it seems that while ALAS might arguably be a trade secret, it is not SNI's trade secret. In fact, the second factor appears to resolve the question entirely, since the "extent to which [ALAS source code] is known by employees and others involved in [SNI's] business" is *zero.* More importantly, common sense dictates that a person must actually know the secret information or possess the secret device in order to have an advantage over others.

While the Court is aware of no cases presenting this precise issue, a recent Fourth Circuit opinion is helpful. In *DTM Research, L.L.C. v. AT & T Corp.*, 245 F.3d 327 (4th Cir.2001), the defendant, AT & T, argued that while the plaintiff, DTM, had possession

of the purported trade secret, it did not have rightful ownership, and therefore could not prevail on a claim of trade secret misappropriation. DTM sought to apply principles of personal property law, arguing that "it is not a defense to theft that the property was taken, obtained, or withheld from a person who had obtained possession of the property by illegal means." *Id.* at 331. Thus, while *DTM Research* involved somewhat different facts, the issue was the same: Whether possession or ownership is the appropriate touchstone in determining whether a plaintiff may prevail on a claim of misappropriation of trade secrets.

Applying the Maryland Uniform Trade Secrets Act, the court resolved the dispute as follows:

> While trade secrets are considered property for various analyses, the inherent nature of a trade secret limits the usefulness of an analogy to property in determining the elements of a trade-secret misappropriation claim. The conceptual difficulty arises from any assumption that knowledge can be owned as property. The "proprietary aspect" of a trade secret flows, not from the knowledge itself, but from its secrecy. It is the secret aspect of the knowledge that provides value to the person having the knowledge. The Maryland Uniform Trade Secrets Act thus defines a trade secret as information that has value because it is not "generally known" nor "readily ascertainable." While the information forming the basis of a trade secret can

> be transferred, as with personal property, its continuing secrecy provides the value, and any general disclosure destroys the value. As a consequence, one "owns" a trade secret when one knows of it, as long as it remains a secret. Thus, one who possesses non-disclosed knowledge may demand remedies as provided by the Act against those who "misappropriate" the knowledge. . . .
>
> Accordingly, if DTM demonstrates that it possesses secret information . . . and that AT & T misappropriated that information . . . by improper means . . . , then DTM may be entitled to the remedies authorized by [the Maryland Uniform Trade Secrets Act].

Id. at 332 (internal citations omitted).

The Court agrees with the holding in *DTM Research* that for purposes of trade secrets law, the focus is appropriately on the knowledge, or possession, of the trade secret, rather than on mere "ownership" in the traditional sense of the word. "One 'owns' a trade secret when one knows of it." *Id.*

DCS offers the following unavoidable truth, which makes clear why SNI does not have a trade secret in ALAS source code: "Even if a customer suddenly developed a need for [ALAS] source code . . . , and placed an order with [SNI], [SNI] could not accommodate that potential customer." (Doc. 324 at 9.) Misappropriation of a trade secret is unlawful because it causes economic harm to the trade secret holder. Because SNI has never possessed ALAS

source code, it has never had an advantage over its competitors, and any misappropriation of ALAS caused it no harm. Thus, SNI has no cause of action based on DCS's alleged misappropriation of trade secrets.[9]

C. Contract Claim

Based on the recent developments discussed above, DCS has asked the Court to vacate the May 2003 Order, in which the Court granted summary judgment on behalf of SNI as to DCS's breach of contract by disclosing ALAS source code to third parties. Specifically, DCS argues that (1) All of the alleged breaches are immaterial, and thus cannot support a breach of contract claim; (2) There is no unmodified ALAS source code to be disclosed to third parties; and (3) The alleged breaches resulted in no damages, and hence cannot support a breach of contract claim. (Doc. 323 at 1.) DCS's primary argument relates to damages:

[9] SNI strenuously argues that the law of the case doctrine forecloses relitigation of this issue. In so arguing, SNI grossly misrepresents the Sixth Circuit's opinion in this case, which, contrary to SNI's contention, "establish[ ] ALAS's status as a trade secret." (Doc. 325 at 33.) In fact, the Sixth Circuit expressly noted that its decision was not an appeal of this Court's April 2004 Order, which was the first instance in which this Court addressed SNI's trade secrets claim. The Court rejects SNI's argument that the law of the case doctrine bars relitigation of this issue.

> Now, on the eve of trial, SNI has abandoned the claim upon which this Court issued the May 20, 2003 Order because it now admits that it has no damages associated with the Claimed Disclosures. These claims constitute the sole basis to find that SNI had the right to terminate the Agreement. This Court is now in the position of trying unsupported post-termination damages . . . premised on a now withdrawn claim of breach. In other words, the thing found to be true by the Court is now admitted to be untrue.

(*Id.* at 2 (brackets omitted).)

DCS misunderstands the relationship between the Court's May 2003 Order and SNI's claim for post-termination damages. In the May 2003 Order, the Court held that DCS breached the Software Agreement by disclosing ALAS source code to third parties. The Court did not grant SNI legal relief on the basis of this breach, however. The Court merely granted the equitable remedy that SNI sought: a permanent injunction, per the terms of the license agreement, which gave SNI the right to terminate if DCS breached. The Court simply enforced the contract.

As to the damages stemming from this breach – an essential element of a breach of contract cause of action – the Court noted that "an issue of fact remains as to if Summit has suffered damages by [DCS's] disclosure of its source code to third parties." (Doc. 75 at 21.) This is no longer an issue of fact, as SNI has conceded that it suffered no damages by

DCS's disclosure to third parties. Thus, SNI has no claim for legal relief on this theory. The consequence of SNI's concession, however, is not that the Court was wrong to enforce the contract by granting an injunction. Rather, the Court stands by that ruling, which has been affirmed by the Sixth Circuit. SNI's concession merely means that it has no legal claim for contract damages based on the disclosure of ALAS to third-parties.

In sum, the Court has not abandoned its finding that DCS breached the Software Agreement by disclosing ALAS source code to third parties, thus giving SNI the right to terminate the Software Agreement.[10] Since there were no money damages stemming from this breach, however, SNI has only two remaining avenues for recovery; (1) Legal relief, or equitable relief under a quantum meruit theory,[11] based on

[10] The Court understands that regrettably, the April 2004 Order may have created some confusion on this issue. There, the Court noted that "a genuine issue of material fact remains as to whether the code revealed to third parties was the original source code, or whether it was modified to the extent that the original code was obsolete." (Doc. 213 at 18.) The Court has never understood this issue to have a bearing on whether a breach occurred, however. The factual dispute only affected the damages stemming from the disclosure to third parties, which is now settled.

[11] The purpose of contract damages is to put the injured party in as good a position as it would have been if the contract had been fully performed. While the Court wishes to express no opinion on the issue at this point, it has yet to see how SNI suffered money damages as a result of DCS's alleged use at

(Continued on following page)

DCS's alleged breach of the Software Agreement by using ALAS at remote locations, and (2) Equitable relief under a quantum meruit theory based on DCS's continued use of ALAS after SNI terminated the Software Agreement.

III. Conclusion

For the reasons discussed above, the Court hereby DISMISSES SNI's Copyright and Trade Secrets Claims. SNI's remaining claims shall proceed to trial.

---

remote locations. Thus, if SNI prevails on this claim, it might be limited to an equitable remedy under a quantum meruit theory.

2007 WL 496689

United States District Court, E.D. Michigan, Southern Division.

DAIMLERCHRYSLER SERVICES,
Plaintiff,

v.

SUMMIT NATIONAL, INC.,
Defendant.
No. 02-71871.

Feb. 13, 2007.

Jane D. Quasarano, Joseph J. Shannon, III, Bodman, Detroit, MI, Nicole R. Foley, Jaffe, Raitt, Southfield, MI, for Plaintiff.

Robert D. Gordon, Clark Hill, Detroit, MI, Jonathan B. Frank, Jackier, Gould, Bloomfield Hills, MI, for Defendant.

ORDER (1) DISMISSING DEFENDANT'S *QUANTUM MERUIT* CLAIM AND (2) DENYING PLAINTIFF'S MOTION FOR CONTEMPT AND SANCTIONS [350]

NANCY G. EDMUNDS, United States District Judge.

This drawn out case comes before the Court once again, this time on Plaintiff DaimlerChrysler Services North America, LLC's ("DCS's") motion for contempt and sanctions against Defendant Summit National, Inc. ("SNI"), filed on September 29, 2006. DCS argues that SNI is in violation of the Court's

September 5, 2006 Stipulated Order Regarding Disclosure of Damages, (Docket No. 349) for failure to adequately respond as ordered by this Court.

Further explication of the extensive history and factual development of this case would be immaterial to the Court's resolution of the instant dispute between the parties, and is not necessary here.[1] That said, it is worth noting that SNI's sole remaining claim sounds in *quantum meruit* for DCS's use of ALAS for eighteen months, per the Court's May 22, 2006 Order (Docket No. 335) which dismissed SNI's claims for copyright infringement, misappropriation of a trade secret and breach of contract.

In its September 5, 2006 Order, which is at issue here, this Court required SNI to disclose the following information relating to its claim of *quantum meruit* damages by September 15, 2006:

> 1. What amount does Summit claim is the "amount it could have charged a willing buyer in an open market for eighteen months of use of the source code at issue" (the "Quantum Meruit Damages")? With respect to the Quantum Meruit Damages, please identify the exact amount of those damages, the methodology and calculations used in arriving at that amount, any documents which support or relate to the claimed damages or

---

[1] For a summary of the salient facts and procedural history of this matter, see the Court's May 22, 2006 Order. (Docket No. 335.)

calculations and any witnesses (and a synopsis of their testimony) expected to be called to support such damages.

2. To the extent that Summit claims any damages not identified in response to Interrogatory No 1, please identify the exact amount of those damages, the legal theories upon which those damages are based, the facts supporting the elements of such legal theory, the methodology and calculations used in arriving at the claimed amount of damages, any documents which support or relate to the claimed damages or calculations and any witnesses (and a synopsis of their testimony) expected to be called to support such damages.

In response, SNI submitted the following answer:

The amount is $3.225 million. The methodology and calculations were described on the record on November 3, 2005. Summit will rely on the documents that were supplied as exhibits at that hearing. An additional document is attached. Summit will also introduce previously identified documents reflecting the volume of leasing business, locations and users for the leasing portfolio that was run on ALAS: DCS lease revenue (Wood # 1); DCS system statistics; list of ALAS users (DC 1187-1213); list of ALAS users (Inglese # 1 and # 2). In addition, Summit intends to introduce those documents produced by DCS under a protective order that reflect amounts that DCS has paid for

> software licenses. Ken Duffy, Sr. and/or Ken Duffy, Jr. will testify to these damages consistently with the testimony provided on November 3, 2005. A representative of DCS is expected to testify concerning DCS's leasing activity, portfolio management system and the price that DCS paid for software licenses.

(SNI's Responses to Interrogatories, DCS's Mot. for Contempt, Ex. 2.)

DCS argues that SNI's answer is substantively defective, in that SNI continues to rely on damage theories and evidence that the Court has previously ruled are inapplicable to the calculation of *quantum meruit* damages in this case. Specifically, DCS asserts that SNI's claim is supported by theories involving ALAS's value to DCS, incorporates a peruser license fee structure in the damages calculation, and claims a $3.225 million damage figure, all of which have been previously stricken by this Court.[2] DCS also notes that the testimony of both Ken Duffy, Sr. and Ken Duffy, Jr. offered in SNI's answer would be improper.

---

[2] As to DCS's claim that this Court previously struck a damages figure of $3.225 million, SNI accurately notes in its Response that the Court struck the $3.225 million figure with regards to its traditional breach of contract claim, but not the post-termination *quantum meruit* claim. (SNI's Resp. at 6 (quoting Nov. 3, 2005 Tr. at 110, lines 22-24, appearing in the record as DCS's Mot. for Contempt, Ex. 4, hereinafter the "Hearing Transcript").) Therefore, SNI's response is not necessarily deficient for this reason.

The Court agrees with DCS's assertion regarding these deficiencies, and will address each in turn.[3]

First, SNI's answer indicates that its damages calculation is partially supported by DCS's "volume of leasing business, locations and users for the leasing portfolio that was run on ALAS: DCS lease revenue; DCS system statistics; list of ALAS users," (internal citations omitted) and the amounts that DCS paid for other software licenses. In its August 3, 2006 Order clarifying the extent of SNI's available *quantum meruit* damages, however, this Court stated that any damages "must not be based on the value of ALAS to DCS at the time of termination."[4] (Docket No. 341 at 5.) Since all of SNI's asserted information on this point is only informative of DCS's use of ALAS, or

[3] DCS also argues that SNI's answer fails to provide the methodology behind the damage calculation, the documents supporting that calculation, and a synopsis of any witness testimony, as required by this Court's September 5, 2006 Order. The Court will focus on the claimed deficiencies regarding SNI's factual support for its damages figure, however, because a failure to identify damages under the proper framework outlined in this Court's prior opinions would completely undercut SNI's sole remaining claim sounding in *quantum meruit.*

[4] The Court reached this conclusion by noting the distinction between *quantum meruit* damages, where such amounts are measured in reference to the plaintiff's expenses incurred to provide the services at issue, and unjust enrichment, which uses the value of the benefits retained by the defendant as the basis for that theory's damage calculation. As SNI's remaining damages sound only in *quantum meruit,* it necessarily follows that the value of ALAS to SNI is the sole evidence that could support SNI's claim to damages at this stage of the case.

what DCS may have paid to license other software besides ALAS, these are not proper considerations in assessing SNI's *quantum meruit* damages.

Shifting to the issue of per-user license fees, SNI's answer incorporated Ken Duffy, Sr.'s remarks from the November 3, 2005 evidentiary hearing. There, Duffy, Sr. stated that the $3.225 million figure was a product of the number of ALAS users at DCS. (Hearing Transcript at 84.) At the close of the hearing, the Court struck any per-user license fee for lack of foundation, (*Id.* at 106-07) and even Duffy, Sr. himself admitted that an ALAS license had never been sold on a per-user basis. (*Id.* at 84.) For these reasons, a damage calculation that relies upon a per-user basis is inappropriate for further consideration.[5]

The final piece of evidence in contention is the testimony of Ken Duffy, Sr. and Ken Duffy, Jr., as SNI claims they will support the damages figure "consistently with the testimony provided on November 3, 2005."At the close of that hearing, however, the Court stated that Duffy, Sr. lacked the requisite foundation to testify regarding damages on this issue, (*Id.* at 97) and Duffy, Jr. never testified at the hearing at all.

---

[5] Furthermore, the licenses that served as the basis for SNI's per-user valuation in the evidentiary hearing were for Optima, a Windows-based successor to the mainframe application ALAS. Thus, these per-user values have little to no correlation with a hypothetical per-user value for an ALAS license. For this additional reason, the Court finds this method of valuing SNI's *quantum meruit* damages inappropriate.

Thus, neither individual's testimony provides support for SNI's *quantum meruit* damages claim.

As seen in its response to DCS's motion for contempt, SNI persists in disregarding the Court's narrowing of the appropriate theories for calculating its damages, as well as the evidence and individuals that may be used to establish a foundation for these figures. At this stage, the time for arguing over the proper methods for calculating damages is over-the Court has reiterated several times what cannot be considered. The Court is convinced that SNI's failure to respond within the boundaries outlined in its prior opinions and proceedings is indicative of the fact that SNI is unable to produce admissible evidence that the value of ALAS 6.0 in the marketplace is anything other than zero. Therefore, the Court finds that DCS's use of the ALAS source code did not cause SNI any *quantum meruit* damages, SNI's remaining claim is DISMISSED as a matter of law for failure to establish this element of a viable *quantum meruit* claim against DCS, and the case is hereby DISMISSED.

Finally, DCS's motion for contempt and sanctions is DENIED as moot.

SO ORDERED.

2006 WL 2228981

United States District Court, E.D. Michigan,
Southern Division.

DAIMLERCHRYSLER SERVICES,
Plaintiff,

v.

SUMMIT NATIONAL,
Defendant.
No. 02-71871.

Aug. 3, 2006.

Jane D. Quasarano, Joseph J. Shannon, III, Bodman, Detroit, MI, Nicole R. Foley, Jaffe, Raitt, Southfield, MI, for Plaintiff.

Robert D. Gordon, Clark Hill, Detroit, MI, Jonathan B. Frank, Jackier, Gould, Bloomfield Hills, MI, for Defendant.

ORDER REGARDING SUMMIT'S DAMAGES PROOFS

NANCY G. EDMUNDS, District Judge.

The Court has taken into consideration arguments regarding the appropriate theory of recovery for Defendant **Summit National**, Inc.'s ("SNI")

claims against Plaintiff DamilerChrysler Services ("DCS").[1]

Recently, the Court suggested that because of SNI's inability to recover damages under copyright, trade secret, or contract claims, its recovery will be limited to "[e]quitable relief under a *quantum meruit* theory based on DCS's continued use of ALAS after SNI terminated the Software Agreement." (Doc. 335 at 18.)[2] *Quantum meruit,* or "as much as deserved," measures recovery under a quasi-contract or contract implied in law, and is sometimes used interchangeably with those terms. *See, e.g., In re McKim Estate,* 606 N.W.2d 30, 33 (Mich.Ct.App.1999) ("this Court has equated recovery under the equitable theory of contract implied in law with recovery in *quantum meruit*"). It is a "fiction[ ] of law adapted to enforce legal duties by actions of contract, where no proper contract exists, express or implied." 66 Am.Jur.2d *Restitution and Implied Contracts* § 2.

The Michigan Court of Appeals has explained a contract implied at law as follows:

> A contract implied in law is not a contract at all but an obligation imposed by law to do justice even though it is clear that no

[1] The relevant background facts may be found in the Court's earlier opinions.

[2] At the time of the Court's Order, SNI sought contract damages. It has since withdrawn its contract claim. (Doc. 337 Ex. 1.)

> promise was ever made or intended. A contract may be implied in law where there is a receipt of a benefit by a defendant from a plaintiff and retention of the benefit is inequitable, absent reasonable compensation.

In re Lewis Estate, 423 N.W.2d 600, 603 (Mich.Ct.App.1988).[3] The same court has quoted with approval the analysis found in Corpus Juris Secundum. *Quality Prods. and Concepts Co. v. Nagel Precision, Inc.,* 2000 Mich.App. LEXIS 2469, *16 n. 6 (Mich.Ct.App. Mar. 21, 2000). That helpful discussion reads in part as follows:

> Contracts implied in law or quasi contracts, also called constructive contracts, are inferred by law as a matter of reason and justice from the acts and conduct of the parties and circumstances surrounding the transactions, and are imposed for the purpose of bringing about justice without reference to the intentions of the parties. . . .
>
> A quasi contract is not a contractual obligation in the true sense because there is no agreement; it . . . will be imposed by law

---

[3] DCS states that "Georgia law applies to this case" (Doc. 37 at 17), apparently based on this Court's earlier conclusion that Georgia law applies to SNI's breach of contract claim. As explained below, however, *quantum meruit* is not a claim for relief on the contract, and DCS has provided no reason to apply Georgia law to this non-contract issue. In any event, Georgia law does not appear significantly different than Michigan law.

> even though it is clear that no promise was ever made or intended. . . .
>
> Generally, the creation of a quasi contract requires a lawful act, a benefit conferred on defendant by plaintiff, an appreciation by defendant of the benefit, and the acceptance and retention by defendant of the benefit under circumstances such that it would be inequitable for him to retain the benefit without payment for its value. . . . A quasi contract is implied by law in order to remedy the wrongful enrichment of one party at the expense of another, and is designed to restore the aggrieved party to his former position by the return of the thing delivered or the money expended.

42 C.J.S. *Implied Contracts* § 4 (footnotes omitted).

DCS argues that *quantum meruit* would be inappropriate here because there "cannot be an express and an implied contract for the same thing existing at the same time." (Doc. 337 at 12.) DCS relies on the "black letter law that a party cannot bring a *quantum meruit* claim where an express contract covers the same subject matter." (*Id.*) While DCS is correct about the law, it misapplies the facts of this case.

Although the ALAS source code at issue was at one time the subject matter of a contract between the parties, SNI terminated that contract, and DCS's post-termination use was unlicensed and extracontractual. "The existence of an express contract between the

parties will not bar recovery under an implied contract theory where the recovery sought is for items not contemplated in the original contract." 5 Mich. Civ. Jur. § 222 (2002) (citing *Nugent v. Teachout,* 35 N.W. 254 (Mich.1887)). Here, the extracontractual use was not contemplated at the time ALAS was licensed. Rather, DCS continued using ALAS for eighteen months based on its inability immediately to purge ALAS source code from its system and on the Court's Order allowing 180 days of post-termination use to "reach[ ] a delicate balance" between SNI's right to exclude DCS from using ALAS and the hardship facing DCS in transitioning to a substitution. (Doc. 75 at 22.) Because the post-termination use was not contemplated or a part of the contract, the Court will imply a contract at law for DCS's post-termination use of ALAS, and SNI is entitled to *quantum meruit* recovery for that period of time.

The more difficult question is how to measure SNI's recovery. In a typical *quantum meruit* case, the value of an object or service to a defendant will be roughly equal to its value to the plaintiff, making the measure of damages a relatively easy question. Under the facts of this case, however, ALAS was worth much more to DCS than it was worth to SNI. ALAS source code was integrated into DCS's leasing software, where it performed many vital functions. But because of its intangible nature, DCS's use of ALAS did not actually "deprive" SNI of anything. Not surprisingly, therefore, SNI wishes to focus on the value of ALAS to DCS, while DCS contends that

quantum meruit recovery is measured by the reasonable value of ALAS to SNI.

SNI argues that despite this Court's dismissal of its copyright and trade secrets claims, its damages should be based on the same theory. Purely under an "unjust enrichment" approach, SNI seeks to recover all money that DCS saved by continuing to use ALAS after SNI had terminated its license.

Relying on this Court's statement that DCS "may . . . discontinue its use of ALAS before 180 days to minimize the accrual of damages" (Doc. 75 at 22), SNI argues that the May 2003 Order was "consistent with the theory of unjust enrichment because it focuses on the daily value of ALAS to DCS. . . ." While the Court has always understood damages to include DCS's post-termination use-which would be based in part upon how long DCS continued using ALAS-it does not follow that the damages are measured by DCS's savings. In fact, the Court's language suggests nothing of the sort. By agreeing with SNI's position, the Court would be forcing DCS to pay the market price to replace ALAS immediately after termination, which is exactly what the Court refused to do in the May 2003 Order.[4] Contrary to SNI's argument, it

[4] When imposing a permanent injunction on DCS's use of ALAS, the Court opted not to force DCS to replace ALAS immediately. Instead, the Court permitted DCS to continue using ALAS for 180 days. The Sixth Circuit affirmed this decision, describing it as "properly balanc[ing] the interests of

(Continued on following page)

would be more consistent with the May 2003 Order to focus on the value of ALAS to SNI.

DCS cites authority clarifying the difference between SNI's theory and its own: "Damages in unjust enrichment are measured by the value of what was inequitably retained. In *quantum meruit,* by contrast, the damages are not measured by the benefit realized and retained by the owner but rather are based on the value of the services provided." *Paffhausen v. Balano,* 708 A.2d 269, 271 (Me.1998). This definition comports with the Corpus Juris Secundum description quoted above, which makes clear that a contract implied at law is "designed to restore the aggrieved party to his former position by the return of the thing delivered or the money expended." 42 C.J.S. *Implied Contracts* § 4.

The Court is satisfied that the appropriate measure of SNI's *quantum meruit* recovery here is based on the value of ALAS to SNI. In other words, as the Court has explained many times before, how much money would a willing buyer have paid SNI for use of the ALAS source code at issue for eighteen months? The answer to this question might be thousands or even millions of dollars. Or it might be nothing. Whatever the number is, it must not be based on the

---

the parties." *DaimlerChrysler Servs. N. Am., LLC v. Summit Nat'l, Inc.,* 144 Fed. Appx. 542, 550 (6th Cir.2005).

value of ALAS to DCS at the time of termination.[5] Because DCS had so substantially integrated ALAS into its leasing system, its replacement costs provide a poor indicator of the market value of ALAS.

In sum, to recover *quantum meruit* damages on theory of contract implied in law, SNI must come forward with evidence of what it reasonably could have charged a willing buyer, in an open market, for eighteen months of use of the source code at issue.

---

[5] Of course, SNI may rely on license fees that have actually been paid for ALAS, including the fee originally paid by Mercedes Benz Credit to Stockholder Systems.

144 Fed.Appx. 542

United States Court of Appeals, Sixth Circuit.
DAIMLERCHRYSLER SERVICES
NORTH AMERICA, LLC f/k/a Mercedes-Benz
Credit Corporation,
Plaintiff-Appellant,
v.
SUMMIT NATIONAL, INC.,
Defendant-Appellee.
No. 03-1796.

Aug. 18, 2005.
Rehearing En Banc Denied Dec. 30, 2005.

On Appeal from the United States District Court for the Eastern District of Michigan.

Joseph J. Shannon, Jane D. Quasarano, Bodman, Longley & Dahling, Detroit, MI, Plaintiff-Appellant.

Francis R. Ortiz, Dickinson, Wright, PLLC, Detroit, MI, Jonathan B. Frank, Jackier, Gould, Bean, Upfal & Eizelman, Bloomfield Hills, MI, for Defendant-Appellee.

Before NORRIS and GIBBONS, Circuit Judges; and TODD, District Judge.*

---

* The Honorable James D. Todd, United States District Judge for the Western District of Tennessee, sitting by designation.

JULIA SMITH GIBBONS, Circuit Judge.

DaimlerChrysler Services North America, LLC ("DaimlerChrysler") brought a complaint for declaratory relief, seeking a judgment that it had not breached a 1983 Software System Agreement under which DaimlerChrysler's predecessor had licensed a software system from an alleged predecessor of **Summit National**, Inc. ("Summit"). Summit counterclaimed, arguing that DaimlerChrysler had breached the agreement and was continuing to use the system despite the fact that Summit had terminated the license agreement. On May 20, 2003, the district court granted partial summary judgment to Summit on the issue of whether DaimlerChrysler breached the agreement and also issued a permanent injunction giving DaimlerChrysler 180 days to stop using the system. DaimlerChrysler appealed, arguing that: (1) Summit did not have the right to enforce the agreement; (2) there was a genuine issue of material fact as to whether DaimlerChrysler breached the agreement; and (3) the injunction was based on an erroneous legal conclusion. DaimlerChrysler later amended the notice of appeal to include the district court's October 9, 2003, order denying its motion for reconsideration. For the reasons set forth below, we affirm the district court's order granting partial summary judgment and a permanent injunction and its denial of the motion for reconsideration.

I.

In 1983, Stockholder Systems, Inc. ("SSI"), which owned and marketed Automated Leasing Account System ("ALAS") software, entered into a "Software System Agreement" under which SSI granted Mercedes-Benz Credit Corporation a "perpetual license" to use ALAS at its Portland, Oregon facility. DaimlerChrysler is the successor-in-interest to Mercedes-Benz Credit Corporation.[1] ALAS provided the software platform used by DaimlerChrysler to track leasing contracts, leasing customers, and vehicles subject to lease in the United States and Canada. The Software Agreement contemplated that the software would be used only by DaimlerChrysler at the Portland facility to process its own data and the data of any of DaimlerChrysler's wholly owned subsidiaries. The agreement stated that DaimlerChrysler could not use ALAS, which was a "trade secret," at any other facility without notifying SSI and/or paying a license fee to SSI. There was also a non-disclosure provision in the agreement, charging DaimlerChrysler with the responsibility to "take all reasonable steps to ensure" that ALAS or any portion thereof would not be made available to any other person, firm, or corporation without SSI's written consent. DaimlerChrysler reserved "the right to modify the Products to meet [DaimlerChrysler]'s particular

---

[1] For the sake of convenience, we will use "DaimlerChrysler" to refer to both DaimlerChrysler and the Mercedes-Benz Credit Corporation.

needs and requirements," and SSI "acknowledge[d] the proprietary rights of [DaimlerChrysler] in any such modification." SSI retained the right to terminate the agreement if DaimlerChrysler breached the agreement and failed to take corrective action within thirty days of receiving notice from SSI of such breach. The Software Agreement stated that any disputes involving the agreement would be governed by Georgia law.

The last recorded installation of ALAS occurred in April 1993 in the Philippines. At some point between 1983 and 1998, Checkfree apparently acquired the rights to a system called ALAS from SSI. In July 1998, CheckFree sold certain assets to Summit. Summit President Kenneth Duffy stated in an affidavit that one of these assets was the ALAS software and that Summit acquired all rights related to ALAS. The Purchase Agreement between Checkfree and Summit indicated that Summit received a number of CheckFree's assets and liabilities. The Purchase Agreement stated that Summit bought all of CheckFree's "Specified Assets," meaning:

> all Assets used in or for the Businesses as of the Closing Date, . . . all of Seller's rights to source code related to or antecedent to versions of the Software listed in Schedule 4.01(n)(ii), and all other Intangible Property . . . , including, but not limited to, the following Assets . . . :
>
> . . .

> (3) including all of Seller's Contract Rights under the Specified Contracts . . .
>
> . . .
>
> (9) All of Seller's claims, causes of action and other legal rights and remedies . . . relating to such Seller's ownership of the Specified Assets . . .
>
> . . .
>
> (13) All rights of Seller in those Assets listed on Schedule 4.01(n)(i) and 4.01(n)(ii).

Both Schedule 4.01(n)(i) and Schedule 4.01(n)(ii) list ALAS. "Asset" is defined as including software and contract rights, and "contract" is defined as including license agreements. The "Specified Contracts" referred to above are listed on Schedule 4.01(*o*), which provides that "customer contracts" are "included under separate cover." Summit President Duffy stated in an affidavit that the Software Agreement was one of the agreements provided by CheckFree to Summit "under separate cover." DaimlerChrysler disputes the assertion that this Purchase Agreement included an assignment of the Software Agreement to Summit, and thus DaimlerChrysler also disputes that Summit is a successor to SSI's rights under the Software Agreement.

The ALAS system was installed at DaimlerChrysler's Portland facility. However, many DaimlerChrysler employees, including about 1400 employees in 2002, logged on to ALAS from locations outside of Portland. DaimlerChrysler employee Barry Sobel, the

senior manager in charge of systems integration, stated in a deposition that these employees remotely accessed ALAS and were "users" of the system. Another DaimlerChrysler employee with managerial responsibilities for ALAS, Peter Athan, confirmed that many DaimlerChrysler employees outside of Portland used ALAS. Athan also stated in a deposition that during the late 1990s, three outside companies worked on ALAS and had access to its source code.[2] At various points during these companies' work on ALAS, the ALAS source code was downloaded and moved to facilities other than the Portland facility, including a DaimlerChrysler facility in Connecticut. Victor Inglese, Athan's successor, testified that employees of an independent contractor, Ciber, continued to work on support and programming of the ALAS system in 2003. Inglese confirmed that these contractors had access to the ALAS source code. Athan indicated that all third parties who had access to ALAS were required to sign confidentiality agreements, an assertion seconded by DaimlerChrysler manager of procurement and administration Ted Eisenhut.

DaimlerChrysler also presented evidence suggesting that the ALAS system in use by DaimlerChrysler at the time of the district court's opinion

---

[2] "The source code of a program is its operating instructions in a format that a computer programmer can read and use to maintain and revise a program." *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 752 n. 1 (7th Cir.2002).

granting partial summary judgment and a permanent injunction was not the same as, or even relatively similar to, the ALAS system licensed to Daimler-Chrysler by SSI in 1983. An affidavit by Daimler-Chrysler manager Gwendolyn Cannon, submitted in opposition to Summitt's summary judgment motion, stated that as of April 2003:

> [I]t is doubtful that there is any unchanged [ALAS] source code that it [sic] still in use. . . . [T]he ALAS source code is a wholly revised and renewed program that has been modified by DaimlerChrysler over the last 20 years and it is unrecognizable when compared to the ALAS source code delivered under the licensing agreement.

Cannon estimated that DaimlerChrysler had spent approximately 250,000 man hours in upgrading and modifying the ALAS source code. In a second supplemental affidavit submitted in support of the motion to reconsider, Cannon stated that the original ALAS software consisted of 18 "batch" programs, for which input was limited to manual data entry and which were not compatible with modern on-line technology. DaimlerChrysler's portfolio management software system as of 2003 included 114 on-line interactive programs, 396 new "batch" programs, and 5 of the original 18 "batch" programs of ALAS. Both of Cannon's affidavits conclude, "Because DaimlerChrysler has made such tremendous modifications to the ALAS source code, DaimlerChrysler is now the owner of the source code." DaimlerChrysler employee Athan also

thought that DaimlerChrysler owned the entire "portfolio system," as he called it, which subsumed any earlier version of ALAS system: "I was under the impression that we owned [the ALAS source code] and we could do what we wanted, and we were working on it so much that I thought personally that all of the vendor-not only the vendor support but the vendor connections to the product were obsolete." In communication with Summit President Duffy in 2000, Athan stated that DaimlerChrysler "currently does use software that was originally based on ALAS." A year later, Duffy described ALAS as "a character-based mainframe product that seems to be becoming part of a dying breed of older legacy systems."

In opposition to the motion to reconsider, Summitt submitted portions of Cannon's deposition. These cast serious doubt on Cannon's personal knowledge about the current recognizability of the ALAS source code, time and money spent on modifications of the ALAS system, and ownership of the code.

Subsequent to the orders from which this appeal is taken, the district court entered an April 8, 2004, order denying DaimlerChrysler's motion for summary judgment. In this order the district court cited some facts that are not included in the joint appendix regarding various versions of the ALAS system.[3]

[3] The district court cites to various "supplemental briefs" that are not part of the record and were evidently briefs filed in

(Continued on following page)

Specifically, the court stated that the version of ALAS licensed to DaimlerChrysler by SSI in 1983 was "ALAS 6.0." A copyright registration form for "ALAS 9.0" was filed in 1995 by Servantis and was amended in 2003 by Summit to characterize ALAS 9.0 as a derivative work based on "ALAS 7.0 and all other previous versions of the ALAS software program." Summit also registered "ALAS 7.0" in 2003, describing ALAS 7.0 as incorporating preexisting works including ALAS 6.0.

On April 18, 2002, DaimlerChrysler received a letter (dated April 10) notifying it that Summit considered DaimlerChrysler in breach of the Software Agreement. Summit invoked the 30-day cure period set out by the agreement and demanded that DaimlerChrysler cease its breach of the agreement within that period. In a letter dated May 10 (but received by DaimlerChrysler on May 8), Summit informed DaimlerChrysler that it was terminating the agreement and demanded the cessation of the use of all licensed Summit products. On May 9, 2002, DaimlerChrysler filed a complaint for declaratory relief, seeking a judgment that DaimlerChrysler was not in default of the Software Agreement. Summit filed an answer and counterclaim on June 5, 2002, seeking a declaratory judgment that DaimlerChrysler was in violation of the Software Agreement, as well as an injunction

---

connection with a summary judgment motion other than the one appealed here.

against DaimlerChrysler's continued use of ALAS. In February 2003, Summit filed a motion (later amended) for partial summary judgment and a permanent injunction, due to DaimlerChrysler's use of ALAS at multiple locations as well as DaimlerChrysler's disclosure of ALAS source code to third parties. DaimlerChrysler filed a cross-motion for summary judgment.

On May 20, 2003, the district court denied DaimlerChrysler's motion for summary judgment and granted in part Summit's motion for partial summary judgment, on the basis that there was no genuine issue of material fact as to whether DaimlerChrysler breached the Software Agreement by disclosing the ALAS source code.[4] The court permanently enjoined DaimlerChrysler from using ALAS but gave DaimlerChrysler 180 days to replace ALAS with other software. DaimlerChrysler timely appealed the district court's May 20, 2003, order to this court.[5] DaimlerChrysler also moved for reconsideration of

---

[4] The court held that questions of fact remained as to whether DaimlerChrysler violated the Software Agreement by accessing ALAS from facilities other than its Portland, Oregon facility.

[5] DaimlerChrysler filed another motion for summary judgment in September 2003, because Summit "does not have a copy of the ALAS 1983 Source Code, because Summit has no damages and because Summit has failed to protect its claimed property rights." The district court held a hearing on this motion on November 19, 2003, and denied it in an order issued April 8, 2004.

this order, but the district court denied the motion in October 2003. On November 7, 2003, DaimlerChrysler amended its appeal to this court to include an appeal from the district court's denial of its motion for reconsideration.

II.

The issuance of a permanent injunction by the district court is reviewed by this court under the following standards: "Factual findings are reviewed under the clearly erroneous standard, legal conclusions are reviewed *de novo,* and the scope of injunctive relief is reviewed for an abuse of discretion." *S. Cent. Power Co. v. IBEW, Local Union 2359,* 186 F.3d 733, 737 (6th Cir.1999). A district court's grant of summary judgment is reviewed *de novo. Terry Barr Sales Agency, Inc. v. All-Lock Co.,* 96 F.3d 174, 178 (6th Cir.1996). Summary judgment is appropriate if "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c). The court must "view the evidence and draw all reasonable inferences therefrom in the light most favorable to the non-moving party." *Little v. BP Exploration & Oil Co.,* 265 F.3d 357, 361 (6th Cir.2001). If a reasonable jury could not return a verdict for the nonmoving party on the basis of the evidence as construed in its favor, summary judgment should be granted to the movant. *See Burchett v.*

Kiefer, 310 F.3d 937, 942 (6th Cir.2002). Put another way, summary judgment is appropriate if the party with the burden of proof at trial fails to make a showing sufficient to establish the existence of an element that is essential to that party's case. *See Celotex Corp. v. Catrett,* 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). DaimlerChrysler also appeals the district court's denial of its motion to reconsider the district court's order granting partial summary judgment and a permanent injunction. "Such denials are typically reviewed for an abuse of discretion, but where a Rule 59(e) motion seeks reconsideration of a grant of summary judgment . . . we conduct a *de novo* review." *Nat'l Leadburners Health & Welfare Fund v. O.G. Kelley & Co.,* 129 F.3d 372, 374 (6th Cir.1997).

A preliminary issue is whether the district court erred in finding that Summit owns the right to enforce the 1983 Software Agreement. Assuming that CheckFree owned ALAS and the rights to enforce the Software Agreement at the time of the transaction between CheckFree and Summit (which, as described *supra,* the parties agree was the case), the district court correctly concluded that Summit has the right to enforce the agreement. It is clear from the Purchase Agreement between the two entities that Summit bought the ALAS software itself from CheckFree, as ALAS was an asset used in the business as of the closing date on the deal, and the definition of asset in the agreement included software. Under the clear terms of the Purchase Agreement,

Summit also acquired the "rights in" ALAS. Therefore, as the district court noted, since the Software Agreement sets out the rights in ALAS that belong to the owner of ALAS, Summit has those rights and is the successor to SSI for the purposes of interpreting the Software Agreement. Also, Summit President Duffy swore in an affidavit that the Software Agreement was provided to Summit as a customer contract "under separate cover" as part of the CheckFree-Summit transaction.[6]

The more difficult issue is whether the district court correctly granted partial summary judgment to Summit. The court held that there was "no material issue of genuine fact [sic] as to whether DaimlerChrysler breached the Software Agreement by disclosing ALAS source code." Based on the evidence available to the district court at the time, this conclusion was sound. The testimony of DaimlerChrysler employees Athan and Inglese clearly suggested that DaimlerChrysler had not taken all reasonable steps to prevent ALAS from being made available to third parties. For instance, Athan stated that during the late 1990s, three outside companies worked on ALAS and had access to its source code, and Inglese

[6] Although Summit had submitted this affidavit in connection with the cross-motions for summary judgment, the district court erroneously stated that "Summit . . . did not provide any evidence beyond a statement in its brief to support the notion that the Software Agreement was included under 'separate cover.'"

testified that employees of another independent contractor continued to work on the ALAS system in 2003. The record is devoid of evidence that DaimlerChrysler took steps to prevent disclosure to third parties. In response to Summit's motion for summary judgment, DaimlerChrysler admitted that third parties "may have seen ALAS source code" and relied only on 17 U.S.C. § 117 to support its argument that DaimlerChrysler could use independent contractors to assist in adapting the software for particular purposes. The district court rejected this argument, both because DaimlerChrysler, as a licensee, could not invoke § 117, and because even if it could, whether the disclosure of the source code "constituted copyright infringement is not relevant to whether [DaimlerChrysler] breached the Software Agreement."[7]

Given the record before the district court in May 2003 and the position taken by DaimlerChrysler, including its admission of disclosure, the district court did not err in concluding that a reasonable jury could not return a verdict for DaimlerChrysler on the issue of whether DaimlerChrysler breached the Software Agreement by failing to take reasonable

---

[7] DaimlerChrysler continues on appeal to press its argument based on 17 U.S.C. § 117 and confuses the issue of the availability of a defense under § 117 in a copyright infringement action with the breach of contract issue presented here. Most recently, it submitted the recent case of *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2nd Cir.2005), which is simply immaterial to the resolution of this case.

steps to prevent disclosure of ALAS to third parties. Thus, the district court's order granting partial summary judgment to Summit was appropriate.

Nor did the district court abuse its discretion in denying reconsideration. The additional evidence before the court in connection with the motion to reconsider was all available to DaimlerChrysler at an earlier time. With regard to the supplemental Cannon affidavit, Cannon's deposition, submitted in opposition to the motion to reconsider, called into question the admissibility of the supplemental affidavit and of the earlier Cannon affidavit, at least to some degree.

DaimlerChrysler makes much of the district court's April 8, 2004, order, which is not the subject of this appeal but seems to contradict the May 2003 order granting partial summary judgment and granting a permanent injunction. In the April 8, 2004, order, the court stated that "a genuine issue of material fact remains as to whether the code revealed to third parties was the original source code, or whether it was modified to the extent that the original code was obsolete." This statement was based on evidence suggesting that the possibility that any ALAS source code disclosed to third parties by DaimlerChrysler might not have been the same ALAS source code that was licensed from SSI in 1983. The tension between the court's two statements is understandable to some degree, as much of DaimlerChrysler's evidence tending to show that there were different versions of ALAS was not submitted until after the May 20 order

issued. For instance, the second, more detailed Cannon affidavit, submitted in June 2003, describes in detail the minimal role of ALAS in DaimlerChrysler's overall portfolio management software. Also, based on language in some of the district court's later rulings, additional evidence was evidently presented to the court suggesting that there are various versions of ALAS and that the version being used by DaimlerChrysler during this litigation was not the same as the version licensed to DaimlerChrysler in 1983. But the statement may also be understood as a reference to the fact that, while it is clear that DaimlerChrysler took no steps to prevent disclosure of ALAS and its source code, the exact nature of what was disclosed and the usefulness of any prohibited disclosures to third parties are quite murky, given the evidence of DaimlerChrysler's extensive modifications to the program. Whatever the explanation for the possible inconsistency, any contradiction in the district court's rulings does not necessitate any action by this court in connection with this appeal. The April 2004 order is not before us now. Moreover, the district court can reconsider its own rulings at any time in order to maintain consistency with itself. *See United States v. Reid,* 357 F.3d 574, 580 (6th Cir.2004) ("In both civil and criminal cases, a trial court is empowered to revisit any of its previous non-final rulings in the light of a perceived error or misjudgment, new relevant information, or even its simple conclusion that it may have acted in ill-considered haste."); *see also In re Air Crash Disaster,* 86 F.3d 498, 518 (6th Cir.1996). In addition, the district court will have another

opportunity to consider the import of the evidence on the issue of DaimlerChrysler's disclosures, because the details of what was disclosed and its usefulness are highly pertinent to the damages issue, which the district court has yet to resolve.

With regard to the district court's grant of a permanent injunction, the district court did not abuse its discretion in permanently enjoining the use of ALAS. *See Dana Corp. v. Celotex Asbestos Settlement Trust,* 251 F.3d 1107, 1118 (6th Cir.2001) ("'Perhaps the most significant single component in the judicial decision whether to exercise equity jurisdiction and grant permanent injunctive relief is the court's discretion.'") (quoting 11A Charles A. Wright, Arthur R. Miller & Mary Kay Kane, Federal Practice and Procedure § 2942 (2d ed.1995)). Contrary to DaimlerChrysler's assertion, the district court was not required to determine damages prior to issuing an injunction. Moreover, unlike DaimlerChrysler, we do not read the injunction as prohibiting DaimlerChrysler's use of its own property.[8] As described *supra,* the injunction was based on a valid legal conclusion, and the district court properly balanced the interests of the parties and allowed DaimlerChrysler 180 days to discontinue its use of ALAS. As the district court stated, this outcome represented "a delicate balance

[8] Whether DaimlerChrysler could, as a practical matter, comply with the injunction and still continue to make use of the portions of its system in which it had a proprietary interest is an issue not explored in this appeal.

between the oppressiveness of an injunction to DaimlerChrysler and the protection of Summit's property rights." We emphasize, however, that our ruling does not preclude the district court from modifying the injunction prior to entry of final judgment, *see Reid,* 357 F.3d at 580, if DaimlerChrysler is indeed correct that the court has changed its mind about the existence of a fact issue with regard to DaimlerChrysler's breach.

III.

For the foregoing reasons, we affirm the district court's grant of partial summary judgment and a permanent injunction to Summit.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

DAIMLERCHRYSLER
SERVICES NORTH AMERICA,

Plaintiff/
Counter-Defendant,

v.

SUMMIT NATIONAL, INC.,

Defendant/
Counter-Plaintiff. /

Case No. 02-71871

Honorable
Nancy G. Edmunds

ORDER GRANTING IN PART DEFENDANT'S MOTION FOR PARTIAL SUMMARY JUDGMENT AND DENYING PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT

(Filed May 20, 2003)

This matter came before the Court on (1) Defendant/Counter-Plaintiff Summit National Inc.'s motion for partial summary judgment and for a permanent injunction against Plaintiff/Counter-Defendant Daimler-Chrysler Services North America ("DaimlerChrysler") and (2) DaimlerChrysler's cross-motion for summary judgment against Summit National Inc. ("Summit"). Summit claims that DaimlerChrysler breached a software license agreement and violated Summit's copyright to the software. For the reasons fully explained below, the Court DENIES DaimlerChrysler's motion for summary judgment, and GRANT IN PART Summit's motion for partial summary judgment

because DaimlerChrysler breached the Software Agreement by disclosing software source code to third parties.

I. Facts

This dispute over DaimlerChrysler's license to use Automated Leasing Account System ("ALAS") software. DaimlerChrysler uses ALAS to track leasing transactions which generate thousands of pieces of data.

A. The Parties

Stockholder Systems, Inc. ("SSI") owned, developed, and marketed ALAS over twenty years ago. (Software System Agreement, attached as Def. Ex. A.) In 1983, SSI entered a Software System Agreement ("Software Agreement") with Mercedes-Benz Credit Corporation ("MBCC") whereby SSI licensed ALAS to MBCC for $40,000. DaimlerChrysler is the successor in interest to MBCC. SSI later sold ALAS to Checkfree, and Summit claims that it purchased ALAS, as well as the Software Agreement from Checkfree. DaimlerChrysler disputes whether Summit is a successor to SSI's rights under the Software Agreement, because the purchase agreement between Checkfree and Summit doesn't name the Software Agreement among the "specified contracts."

B. The Software Agreement

The Software Agreement provides that ALAS "may be used only for, by or on behalf of M-B Credit at the facility set forth on the first page of this Agreement to process its own data and the data of any wholly owned subsidiaries or affiliates of M-B Credit of Daimler-Benz AG. M-B Credit may substitute one facility for another at any time provided SSI is notified promptly in writing of such facility substitutions." (Software Agreement ¶ 4.1, attached as Def.'s Ex. A.) The first page of the Software Agreement identifies the facility location as 4747 N. Channel Avenue, Portland, Oregon 97208.

The Software Agreement also includes a nondisclosure provision: "M-B Credit shall take all reasonable steps to ensure that the Product Documentation Manuals and the Product programs, or any portion thereof, on magnetic tape or disk or in any other form, are not made available by M-B Credit or by any of its employees to any other person, firm or corporation, without the prior written consent of SSI."

C. ALAS at DaimlerChrysler

ALAS is currently installed on DaimlerChrysler's mainframe at the Portland location only. (Sobel Dep. at 38, Attached as Def. Ex. C.) In 2002, however, 1,423 DaimlerChrysler employees logged on to ALAS as "users" from eight locations other than Portland: Boston, Montreal, Dallas, Farmington Hills, Atlanta, Toronto, Wilmington, and Lisle, Illinois. (List of

personnel, attached to Def. Mot. for Summ. J. as Ex. B.) DaimlerChrysler has call centers around the country where customers are able to contact DaimlerChrysler for assistance with their leasing contracts. From the call centers, DaimlerChrysler personnel remotely input data. The data is processed only in Portland. One SSI employee knew that its customers, including DaimlerChrysler, used its software in this fashion but neither SSI, nor its successors, took action against their licensees. (Aff. of David Alspaugh, attached as Pl. Ex. 7.)

In the twenty years since DaimlerChrysler became a licensee of ALAS, the program has needed modifications, such as updating to become date complaint when the year 2000 arrived, i.e. "Y2K" compliant. Toward that end, DaimlerChrysler admits that it hired outside consultants to work on ALAS, and in the course of their work they were given access to ALAS source code, which is the written code of instructions that, once it is converted to object code, enables the computer to perform the specific tasks directed by the program.

D. Procedural History

The Software Agreement provides that in event of DaimlerChrysler's breach of the agreement, Summit may terminate the agreement if its first notifies DaimlerChrysler of the alleged breach and then gives DaimlerChrysler thirty days to cure the breach. On April 18, 2002, DaimlerChrysler received a

demand letter from Summit. (Apparently, Summit discovered that DaimlerChrysler sought to replace ALAS, and when Summit discovered that Daimler-Chrysler sought to replace ALAS, and when Summit also discovered that none of its software products would be considered to replace ALAS, Summit threatened termination of the license and legal action.) According to the Software Agreement, DaimlerChrysler then had 30 days to correct the alleged breach before Summit could terminate the agreement. In a letter from Summit dated May 10, 2002, but strangely stamped received by DaimlerChrysler on May 8, 2002, Summit terminated the Software Agreement because of DaimlerChrysler's alleged breach. On May 9, 2002, DaimlerChrysler filed this suit seeking a declaration that it was not in default of the Software Agreement. On June 5, 2002, Summit answered the complaint and filed a counterclaim. The issue in the complaint and counterclaim are the same: whether or not DaimlerChrysler breached the Software Agreement and if so, whether Summit improperly terminated the agreement. This lawsuit has been plagued by numerous contentious discovery disputes and accusations of wrong-doing on both sides.

After Summit filed its motion for summary judgment, the Court ruled on DaimlerChrysler's motion to compel discovery, and ordered Summit to produce under seal the sales contract between it and Checkfree. Following that disclosure, DaimlerChrysler claimed that the contract conclusively establish

that Summit does not have any rights under the Software Agreement, and filed an "Emergency Motion" to strike Summit's motion for summary judgment based on the newly disclosed evidence. Instead of striking the motion, this Court granted an extension to both parties to file supplemental briefs on the issue of ownership rights under the Software Agreement. In the midst of the supplemental briefing schedule, DaimlerChrysler filed its own motion for summary judgment. Currently before the Court are (1) Summit's motion for partial summary judgment on its counterclaim and for a permanent injunction against DaimlerChrysler and (2) DaimlerChrysler's cross-motion for summary judgment against Summit.

II. Standard for Summary Judgment

Summary judgment is appropriate only when there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law. *See* FED. R. CIV. P. 56(c). The central inquiry is "whether the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 251-52 (1986). After adequate time for discovery and upon motion, Rule 56(c) mandates summary judgment against a party who fails to establish the existence of an element essential to that party's case and on which that party bears the burden of proof at trial. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 233 (1986).

The movant has an initial burden of showing "the absence of a genuine issue of material fact." *Id.* at 323. Once the movant meets this burden, the non-movant must come forward with specific facts showing that there is a genuine issue for trial. *See Matsushita Electric Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986). To demonstrate a genuine issue, the non-movant must present sufficient evidence upon which a jury could reasonably find for the non-movant; a "scintilla of evidence" is insufficient. *See Liberty Lobby*, 477 U.S. at 252.

The court must believe the non-movant's evidence and draw "all justifiable inferences" in the non-movant's favor. *See id* at 255. The inquiry is whether the evidence presented is such that a jury applying the relevant evidentiary standard could "reasonably find for either the plaintiff or the defendant." *See id.*

III. Analysis

In support of its motion for summary judgment, Summit pursues three arguments against DaimlerChrysler. First, Summit contends that DaimlerChrysler's employees at many locations other than the Portland location use ALAS, in violation of the Software Agreement. Second, Summit alleges that DaimlerChrysler has provided ALAS sourcecode to third parties in violation of the Software Agreement. Finally, Summit alleges that DaimlerChrysler is infringing its copyright.

DaimlerChrysler moves for summary judgment based on two arguments. First, it claims that Summit has not acquired the Software Agreement from Checkfree, and therefore is not a successor in interest to that contract. Second, DaimlerChrysler argues that Summit has not suffered any damages, so it cannot maintain breach of contract claim.

A. Summit's Status as Successor to the Software Agreement

In 1983, SSI licensed ALAS to MBCC. Some time thereafter, Checkfree, Inc. merged with SSI. In 1998, Checkfree and Summit entered an asset purchase agreement (the "Purchase Agreement") whereby Checkfree paid Summit for Summit to acquire some of Checkfree's assets and liabilities. The parties disagree as to whether the Software Agreement was included in the purchase. This issue turns on the Court's interpretation of the purchase agreement between Checkfree and Summit.

The relevant portions of the Purchase Agreement follow.

> Section 2.1 *Sale and Purchase of Specified Assets.* On the Closing Date, and subject to the other terms and conditions of this Agreement, Seller shall sell, transfer, assign and convey to Buyer, and Buyer shall purchase, all right, title, and interest in and to all of the Specified Assets free and Clear of all Encumbrances, except Seller shall assign to Buyer, and Buyer shall assume, the Specified Liabilities.

(a) *Specified Assets of Seller.* The "*Specified Assets*" means all Assets used in or for the Business as of the Closing Date, and to the extent still possessed by Seller and not generally shared with the other Business of Seller, all Tangible Property used in or for the Business after January 1, 998 and prior to the Closing Date, all of Seller's rights to source code related to or antecedent to versions of the Software listed in Schedule 4.01(n)(ii), and all other Intangible Property used in or for the Business within (1) year prior to the Closing Date [except for prior transferred assets listed on Schedule 2.01(a)], wherever located and whether or not reflected on Seller's books and records, including, but not limited to, the following Assets (and excluding the Assets specifically excepted below):

* * *

(3) including all of Seller's Contract Rights under the Specific Contracts

. . .

(13) All rights of Seller in those Assets listed on Schedule 4.01(n)(ii).

* * *

SECTION 4.01 *Representations and Warranties of Seller.* Seller represents and warrants to Buyer as follows:

* * *

(i) *Specified Assets.* Schedule 4.01(i) includes detailed lists of Specified Assets used exclusively in or for the Business (which Seller warrants are all the Assets used exclusively in the Business except as otherwise expressly itemized as excluded in this Agreement) . . .

(o) *Contracts.* Schedule 4.01(o) is a true, correct and complete list of all of the following types of Contracts to which Seller is a party or by which Seller is bound relating the Business (collectively, the "*Specified Contracts*"), as of March 31, 1998 . . .

Schedule 4.01(n)(ii) includes ALAS. Schedule 4.01(o) lists several "Current ALAS Production Customers," and neither MBCC nor DaimlerChrysler is included in the list.

Summit first contends that this matter is not in dispute because DaimlerChrysler did not deny that SSI was Summit's predecessor in interest to the Software Agreement in its answer to Summit's counterclaim. Fed. Rule of Civ. Pro. 8(d) provides that averments in a pleading to which a responsive pleading is required are admitted when not denied in the responsive pleading. Paragraph four of the counterclaim states "On February 10, 1983, Summit's predecessor-in-interest, Stockholder Systems, Inc., and DaimlerChrysler executed the Software System Agreement ("Agreement")." DaimlerChrysler answered "DaimlerChrysler denies that the Agreement was executed on February 10, 1983 as the document

bears a different date of execution for each party." (Pl.'s Ans. at ¶ 4.)

Summit's argument is unavailing for two reasons. First, Rule 8(d) applies only to averments, which are statements of fact. *See* Black's Law Dictionary 131-32 (7th ed. 1999) (defining "averment" as a "positive declaration or affirmation of fact; esp., an assertion or allegation in a pleading"). Summit's interest in the Software Agreement depends on the interpretation of the purchase agreement, and contract interpretation is a question of law, not of fact. Second, while parties can stipulate to issues of fact, they cannot stipulate to issues of law. *See Neuens v. City of Columbus*, 303 F.3d 667, 670 (6th Cir. 2002) (holding that the district court erred in accepting the parties' stipulation that a § 1983 defendant acted under color of state law because that was a legal issue and "parties may not stipulate to the legal conclusions to be reached by the court"). By analogy, conclusions of law cannot be "admitted" by a responding party who does not deny an averment in a complaint. Therefore, DaimlerChrysler could not admit the legal conclusion that Summit is a successor-in-interest to SSI.

As for the Court's interpretation of the Software Agreement, the Software Agreement provides that it "shall be governed by the laws of the State of Georgia and the Uniform Commercial Code as enacted therein." Georgia employs the following rules of contract interpretation:

> The cardinal rule of contract construction is to ascertain the intent of the parties at the time they entered the agreement. Construction of a contract by the court involves three steps. First, if no ambiguity appears, the trial court enforces the contract according to its terms irrespective of all technical or arbitrary rules of construction. That is, where the terms of a written contract are clear and unambiguous, the court will look to the contract alone to find the intention of the parties. Secondly, if ambiguity does appear, the existence or non-existence of an ambiguity is a question of law for the court. Finally, a jury question arises only when there appears to be an ambiguity in the contract which cannot be negated by the court's application of the statutory rules of construction.

Atlanta Development, Inc. v. Emerald Capital Investments, LLC., 574 S.E.2d 585, 589 (Ga. Ct. App. 2002). A word or phrase is ambiguous if it can fairly be understood to have more than one meaning. *Kusuma v. Metametrix, Inc.*, 381 S.E.2d 322 (Ga. Ct. App. 1989). A license to use copyrighted software "must be construed in accordance with the purposes underlying federal copyright law." *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989). One key purpose is the protection of the author's rights. *Id.* "We rely on state law to provide the canons of contractual construction, but only to the extent such rules do not interfere with federal copyright law or policy." *Id.*

In support of its argument that Summit did not acquire rights to the Software Agreement, DaimlerChrysler offers the following reasoning:

(1) Summit acquired certain "specified assets" and "specified liabilities" from Checkfree;

(2) unlike most asset purchases, Checkfree (the seller) paid Summit (the purchaser) a substantial sum to receive the assets;

(3) sections 2.01(a)(1) through (13) of the purchase agreement list all of the specified assets;

(4) sections 2.01(b)(1)-(2) identifies "specified liabilities;"

(5) among the specified assets and liabilities are the "specified contracts," which are listed in schedule 4.01(o);

(6) section 4.01(o) states that Schedule 4.01(o) "is a true, correct and complete list of all of the following types of Contracts to which Seller is a party or by which Seller is bound relating to the Business (collectively, the "*Specified Contracts*"), as of March 31, 1998."

(7) the Software Agreement is not included in the schedule.

DaimlerChrysler concludes that since schedule 4.01(o) is the complete list of specified contracts, and the Software Agreement is not on the list, Summit did not acquire that contract. The list of purchased assets, however, includes ALAS. Section 2.01(9)

includes within the definition of Specified Assets "all of Seller's claims, causes of action and other legal rights and remedies, whether or not known as of the Closing Date, relating to such Seller's ownership of the Specified Assets. . . ." Section 2.01(13) includes within the definition of Specified Assets "all rights of Seller in those Assets listed on Schedule 4.01(n)(i) and 4.01(n)(ii)." Both of these schedules list ALAS.

Therefore, Summit owns the rights to ALAS. Summit acquired ALAS because it was one of the specified assets in the Purchase Agreement, and in addition to the actual program, Summit also acquired "all rights of Seller in those Assets."[1] Consequently, Summit owns the right to enforce the Software Agreement because the Software Agreement specifies rights of the owner of ALAS in ALAS.

B. Breach of the Software Agreement

Summit claims that DaimlerChrysler violated the Software Agreement by using the ALAS at locations other than the Portland facility, and by disclosing the source code to third parties.

---

[1] There is no schedule which purports to be a complete list of all license agreements relating to the software sold to Summit. Rather, customer contracts (which would include the Software Agreement) were provided under "separate cover." Summit, however, did not provide any evidence beyond a statement in its brief to support the notion that the Software Agreement was included under "separate cover."

1. Use of the ALAS

DaimlerChrysler contends that the employees at the other locations did not "use" ALAS, but merely had access to it. DaimlerChrysler also argues that since the Software Agreement provides that it may use ALAS to process data only to the Portland facility, and since the employees at the other locations are not using ALAS to process data, they are not breaching the Software Agreement.

Under Georgia's contract interpretation rules, the Software Agreement is ambiguous. Paragraph 4.1 states: "The products . . . may be used only for, by or on behalf of M-B Credit at the facility set forth on the first page of this Agreement to process its own data and the date of any wholly owned subsidiaries or affiliates of M-B Credit of Daimler-Benz AG." The portion of the sentence relating to processing data unambiguously means that DaimlerChrysler may process its own data, but not the data of any other entity. The meaning of the word "use," however, is ambiguous. "Use" of ALAS could mean only installation and running of the software, as DaimlerChrysler contends. "Use" could also include access, input and retrieval of data supplied by ALAS, as Summit contends. When a contract is ambiguous, it is a question of fact for the jury to determine the parties' intent. *Atlanta Dev.*, 574 S.E.2d at 590.

Additionally, there is a question of fact as to whether Summit's predecessor waived its objection to the manner in which DaimlerChrysler allowed

employee access to ALAS. Under Georgia law, a party may waive contractual provisions for its benefit. *Barranco v. Welcome Years, Inc.*, No. A03A0017, 2003 WL 1344420, *2 (Ga. Ct. App. March 20, 2003). Furthermore, parties may waive contractual obligations through their conduct. *Stimson v. George Laycock, Inc.*, 542 S.E.2d 121, 125 (Ga. Ct. App. 2000).

David Alspaugh, an employee of SSI from 1984 through 1997, sold and provided support to customers of the ALAS system. (Alspaugh Aff., attached as Pl. Ex. 7.) The relevant portions of his affidavit follow.

> 5. During my employment at SSI, some customers had ALAS resident on a mainframe in one location and had employees in other locations entering data into the software remotely. While at SSI, I was aware of some clients who performed such remote data entry. I am not aware that SSI ever took the position that such activity was a violation of its contract.
>
> 6. I do not specifically recall all locations where MBCC used ALAS.
>
> 7. I participated in a presentation to MBCC in Connecticut and worked onsite for several days assisting with design modifications of the ALAS software at MBCC's Connecticut location. I am aware that at least one of the MBCC employees and myself had access to the ALAS system from MBCC's Connecticut location.

8. I never questioned that at least one MBCC employee had access to the ALAS system from MBCC's Connecticut location.

Mr. Alspaugh's testimony does not conclusively prove that SSI waived any prohibition (if there was one) regarding remote access to ALAS. It does, however, create an issue of fact as to whether SSI waived the possible prohibition. In sum, summary judgment as to whether DaimlerChrysler "used" ALAS in violation of the Software Agreement is inappropriate because questions of fact remain as to the meaning of the word "use," and whether Summit waived any objection to the manner in which DaimlerChrysler "used" ALAS.

2. Disclosure of the source code

Summit also argues that DaimlerChrysler breached the Software Agreement by disclosing the ALAS source code to third parties. Paragraph seven of the Software Agreement requires DaimlerChrysler to take "all reasonable steps" to prevent ALAS from being made available to third parties, and also requires DaimlerChrysler to receive prior written consent before making such disclosures.[2]

---

[2] At oral argument, Summit argued that written consent before disclosure is necessary so that Summit can force the third party to sign a non-disclosure agreement. Without such an

(Continued on following page)

The deposition testimony of Mr. Athan and his successor, Mr. Inglese, provides evidence that DaimlerChrysler gave third parties access to the source code. The third parties in question are consultants and contractors hired by DaimlerChrysler to perform services related to ALAS.

Jonathan Athan was the senior information technology manager for DaimlerChrysler until his retirement on December 31, 2001. He testified that DaimlerChrysler hired a firm named Microfocus in 1998 through 1999 to analyze the code, make any necessary changes to the code for the program to be Y2K compliant, and that "they had access to the entire code." (Athan Dep. at 16-17, 20, attached to Def. Reply as Ex. A.) Also, when DaimlerChrysler decided to re-engineer their leasing system, it hired a firm named I-Cube in late 1998 through 2000 to complete the re-engineering and "they had access to the code." *Id.* at 17, 20. Mr. Athan further testified that a third company, Lexibridge, also had access to the code so that it could be on the re-engineering job. *Id.* at 19-20. Responding to a question regarding these three companies, Mr. Athan testified that "they had access to all of our code.

Q: That would include ALAS?

A: Including ALAS or anything."

---

agreement, Summit would lack standing to pursue legal action against the third party.

Athan Dep. at 19-20.

Mr. Athan thought that DaimlerChrysler owned ALAS, and therefore also thought that it could share the source code with whomever it wished.

Q: Did you ever analyze the issue of whether any restrictions on the use of the ALAS source code or software as it related to the locations where it could be used?

A: No.

Q: Why is that?

A: Two-fold. I believed – I was under the impression that we owned it and we could do what we wanted, and we were working on it so much that I thought personally that all of the vendor – not only the vendor support but the vendor connections to the product were obsolete. This was ten or so years after we bought it. So the thought, quite honestly, never occurred to me that there was any link to any of the original vendors.

Athan Dep. at 41-42.

When asked whether he believed DaimlerChrysler purchased or licensed the ALAS, Mr. Athan answered:

I would have interpreted it, from what I heard, as a purchase because we did have access to the source, and were making heavy modifications and changes to it, so typically

> when we license software, we look to the vendor that supplied it to kind of stay in the cycle. In this case, by time I had arrived, it had been so rewritten that I had a group that I finally got the gist of their message that they didn't want to call it ALAS anymore. We took it and did this, that and the other thing. So now it's the leasing system. Now it's this. So we were – I was always under the impression or people that worked with me that we could do what we wanted. We bought it and that was it.
>
> *Id.* at 29-30.

Victor Inglese, Mr. Athan's successor and the current senior manager of the information Technology department, testified at his deposition that independent contractors, employed by a firm named Ciber, also have access to the ALAS source code. (Inglese Dep. at 26-27, attached as Def. Ex. I.) Those contractors are hired to support the ALAS system. *Id.*

DaimlerChrysler does not contest that third parties "may have seen ALAS source code." (Pl.'s Supp. Br. in Resp. to Def.'s Mot. for Sum. J. at 6.) It also does not claim that it sought, or received, prior consent before making the disclosures (probably because, as Mr. Athan testified, its technology staff thought DaimlerChrysler owned outright ALAS). DaimlerChrysler's only argument is that 17 U.S.C. § 117 allows licensees to use independent contractors to exercise their rights to adapt software. 17 U.S.C. § 117 provides:

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copied were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.

DaimlerChrysler's reliance on § 117 is misplaced because the statute only helps defines certain actions that shall not constitute copyright infringement. Whether or not DaimlerChrysler's action constituted copyright infringement is not relevant to whether

they breached the Software Agreement by disclosing ALAS sourcecode.[3] In sum, Summit has shown that here is no material issue of genuine fact as to whether DaimlerChrysler breached the Software Agreement by disclosing ALAS sourcecode.

C. Copyright Infringement

Summit argues that in addition to having breached the Software Agreement, DaimlerChrysler infringed their copyright. 17 U.S.C. § 106(1) gives the owner of a copyright the exclusive right to reproduce the copyrighted work "in copies or phonorecords." To prevail on its copyright infringement claim, Summit must prove (1) ownership of the copyright in ALAS, and (2) copying of protectable expression by DaimlerChrysler. *S.O.S.*, 886 F.2d at 1085. Registration of the copyright is a prerequisite for Summit to file a copyright suit. *Id.* Summit does not state that their copyright in ALAS is registered, let alone provide proof of registration. Therefore, Summit has not met this initial prerequisite.

Additionally, Summit did not even plead a claim for copyright infringement in its counter-complaint. In its answer to DaimlerChrysler's complaint, it asserts a counterclaim only seeking a declaratory

[3] Furthermore, § 117 does not protect DaimlerChrysler because it never owned a copy of ALAS; it only had a license to use ALAS. *See CMAX/Cleveland v. UCR, Inc.*, 804 F. Supp. 337, 356 (M.D. Ga. 1992).

judgment that DaimlerChrysler violated the scope of the Software Agreement and that Summit is entitled to injunctive relief. Summit has not moved to amend its counterclaim to include a claim for copyright infringement. Fed. R. Civ. Pro. 13(f) provides: "When a pleader fails to set up a counterclaim through oversight, inadvertence, or excusable neglect, or when justice requires, the pleader may by leave of the court set up the counterclaim by amendment." A district court has discretion to permit amendment based on the facts of the case.

Here, Summit has not even requested an amendment. Furthermore, a copyright infringement analysis is distinct from and requires different facts from the license violation claim. Until the filing of Summit's motion, DaimlerChrysler was not on notice that it would need to defend against a copyright infringement claim, and therefore did not have the opportunity to structure its discovery accordingly.

Finally, and most importantly, Summit does not provide any argument or evidence that Daimler-Chrysler infringed its copyright. Summit's only argument in support of its copyright infringement claim is that "[c]opyright laws is clear that a licensee infringes on the licensor's copyright by using the licensed product beyond the scope of the license." Summit cites 17 U.S.C. § 106(3) and 17 U.S.C. § 501(c), but those sections, do not state or imply Summit's proposition.

Summit also cites *NLFC, Inc. v. Devcom Mid-America, Inc.*, 45 F.3d 231, 235 n.5 (7th Cir. 1995) for the proposition that use of copyrighted material which exceeds the scope of the license constitutes copyright infringement. That citation, however, in no way supports Summit's statement. The cited footnote was in the context of the *NLFC* court determining whether the party opposing summary judgment had produced sufficient evidence of the copying of its copyrighted software. In footnote five, the court stated: "Even if such a copying could be demonstrated in this case, we are convinced that Devcom's activities were permissible under the agreements entered into between NLFC and the labs." *Id.* at n.5. The court then cited a Ninth Circuit case for the accepted proposition that "to prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a copying of protectable expression 'beyond the scope of a license." *Id.* (citing *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993). Footnote five does not support the Summit's contention that use of copyrighted material which exceed the scope of the license constitutes infringement. Rather, it says that a licensee acting within the scope of its license does not infringe by engaging in conduct that would otherwise constitute copyright infringement.

The assertion that once a user exceeds a license he is a per se copyright infringer is infringing, these cases establish that engaging in one of the acts reserved to the copyright holder under § 106, without a

license to do so, is infringing." *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 432 (9th Cir. 1993) (rejecting an argument similar to Summit's, where movant cited cases similar to the ones Summit cites here). *But see CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337,356-57 (M.D. Ga. 1992) (finding that, in addition to other violations of the plaintiffs' copyright, defends violated its copyright by breaching the license agreement, but there the breach of the license agreement was distributing the copyrighted material to other defendants which in itself may have been a copyright violation).

Summit also asserts that use of software after proper termination of a licensee constitutes infringement. *Id.* The decisions Summit cites for these propositions, however, do not actually state or imply that rule. For example, in *SAS Institute, Inc. v S & H Computer Sys., Inc.*, 605 F. Supp. 816, 829 (M.D. Tenn. 1985), the district court first decided that the plaintiff did not authorize (i.e. license) the defendant to use the software to prepare a separate product, and then considered whether such use constituted copyright infringement by engaging in a thorough analysis of whether the use fell within 17 U.S.C. § 106. In sum, Summit's assumption that if they prove DaimlerChrysler violated the Software Agreement they have similarly proved DaimlerChrysler has infringed their copyright is not correct. Whether or not DaimlerChrysler infringed Summit's copyright is a separate analysis. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 (9th Cir. 1989) (deciding first

that the defendant exceeded the scope of the software license, and then remanding to the district court the question of whether the defendant "unshielded by any license" infringed the plaintiff's copyright).

For the Court to determine if DaimlerChrysler infringed Summit's copyright, it must determine if DaimlerChrysler infringed Summit's exclusive rights enumerated in 17 U.S.C. § 106. Since Summit has not provided the Court with an argument or evidence regarding DaimlerChrysler's infringement of these rights, it has not shown the absence of a genuine issue of material fact as to whether DaimlerChrysler infringed its copyright.

D. Summit's Termination of the Software Agreement

Section 1 of the Software Agreement provides: "SSI shall have the right to terminate this Agreement in the event of any breach of M-B Credit provided such breach remains uncorrected after 30 days following receipt of notice of said breach from SSI." DaimlerChrysler argues that Summit improperly terminated the Software Agreement because DaimlerChrysler received the letter of termination ten days before the thirty-day period expired. The demand letter and termination letter are attached to DaimlerChrysler's response, and the dates on them indicate that Summit indeed failed to wait thirty days from DaimlerChrysler's receipt of the demand letter before it terminated the Software Agreement.

This issue will be relevant in determining Summit's damages arising from DaimlerChrysler's of ALAS after the license was terminated. It does not affect this Court's analysis of DaimlerChrysler's liability, however. Even if Summit had waited the additional ten days, DaimlerChrysler would be in the exact same position it is now.

E. Remedy

DaimlerChrysler bases its motion for summary judgment, in part, on the theory that since ALAS is a "legacy" product, Summit has not suffered any damages. Under Georgia law, proof of damages is an essential element of a breach of contract cause of action. *See Dyer v. Honea*, 557 S.E.2d 20, 27 (Ct. App. Ga. 2001). DaimlerChrysler maintains that ALAS is a "legacy" product because it is an older software program that is not currently marketed and has been largely replaced. Even if that is true (and Summit denies the assertion that ALAS has no market value), an issue of fact remains as to if Summit has suffered damages by DaimlerChrysler's disclosure of its source code to third parties.

Summit requests a permanent injunction, and also requests reserving the issue of damages for trial. Summit has terminated the license agreement, and therefore DaimlerChrysler's continued use of ALAS is without a license to do so. Georgia law regarding injunctions provides, "Equity, by a writ of injunction, may restrain proceedings in another or the same

court, a threatened or existing tort, or any other act of a private individual or corporation which is illegal or contrary to equity and good conscience and for which no adequate remedy is provided at law." Ga. Code Ann. § 9-5-1 (2003).

DaimlerChrysler is hereby enjoined from using ALAS once 180 have passed after this Order is issued. The fact that Summit also claims damages from DaimlerChrysler's breach does not mean that an injunction should not issue. A fundamental right of property ownership is the right to exclude others from the property. If an injunction were not issued, and Summit could merely continue to collect damages for ongoing unlicenced use of its property, Summit would be denied its ownership right to exclude others from using its intellectual property.

On the other hand, even when a permanent injunction is at issue, the Court must weigh the oppressiveness of the injunction to the defendant:

> A mandatory injunction is an extraordinary remedy, one of the most powerful a court can issue. It is for that reason call the "strong arm of equity." "There is no power the exercise of which is more delicate, which requires greater caution, deliberation, and sound discretion, or is more dangerous in a doubtful case, than the issuing of an injunction." It should be crafted in a manner that is least oppressive to the defendant while still protecting the valuable rights of the plaintiff.

Prime Bank v. Galler, 430 S.E.2d 735 (Ga. 1993) (internal citations omitted).[4] Given the scope of DaimlerChrysler's reliance on ALAS for its daily operations, the Court grants DaimlerChrysler up to 180 days to replace ALAS with other software. DaimlerChrysler may, of course, discontinue its use of ALAS before 180 days to minimize the accrual of damages. This injunction reaches a delicate balance between the oppressiveness of an injunction to DaimlerChrysler and the protection of Summit's property rights.

As a final note, Georgia courts consider the equitable rule of unclean hands, which requires that "he who seeks equity must do equity." *West v. West*, 825 F. Supp. 1033, 1048 (N.D. Ga. 1992). The doctrine applies only when there is a direct relationship between the plaintiff's wrongdoing and the acts giving rise to the suit. *Id.* at 1049. Normally, when the unclean hands doctrine applies, the court is prevented from even considering the merits of the case. *Id.* In this case, while Summit's untimely termination of the license agreement and its possible abuse of the legal process to negotiate a new contract with DaimlerChrysler may not rise to the level of unclean hands, those facts certainly weigh in favor of mitigating the impact of the injunction on DaimlerChrysler.

---

[4] The Court applies Georgia's standards for granting injunctions since the injunction arises out of a breach of contract claim, which is governed by state law.

IV. Conclusion

Being fully advised in the premises, having read the pleadings, and for the reasons set forth above, the Court hereby orders as follows:

(1) DaimlerChrysler's motion for summary judgment is DENIED;

(2) Summit's motion for partial summary judgment is GRANTED as to DaimlerChrysler's breach of the Software Agreement by disclosing software to third parties;

(3) Summit's motion for partial summary judgment is DENIED as to DaimlerChrysler's breach of the Software Agreement by improper "use" as issues of fact remain;

(4) Summit's damages for DaimlerChrysler's breach of the Software Agreement shall be determined by a trier of fact;

(5) Summit's motion for a permanent injunction is GRANTED. DaimlerChrysler shall cease using ALAS once 180 days have passed after this Order is issued.

/s/ Nancy G. Edmunds
Nancy G. Edmunds
U. S. District Judge

Dated: MAY 20 2003

Case No. 07-1357

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

ORDER

DAIMLER CHRYSLER SERVICES NORTH AMERICA, L.L.C., fka Mercedes-Benz Credit,

Plaintiff-Appellee

v.

SUMMIT NATIONAL, INCORPORATED,

Defendant-Appellant

BEFORE: SUHRHEINRICH, Circuit Judge; COLE, Circuit Judge; GIBBONS, Circuit Judge;

Upon consideration of the petition for rehearing filed by the ,

It is **ORDERED** that the petition for rehearing be, and it hereby is, **DENIED**.

ENTERED BY ORDER OF THE COURT
Leonard Green, Clerk

/s/ Leonard Green

Issued: September 22, 2008
